



3 1761 12062721 1

Ministry of Revenue  
Corporations Tax Branch  
Information Bulletin









Ontario

Ministry  
of Revenue

Margaret Scrivener  
Minister

T.M. Russell  
Deputy Minister

## Corporations Tax Branch

# Information Bulletin

Number 1-77 Date: March 21, 1977

Government  
Publications

*CA2 ON  
Ru 70  
-I52*

*LIBRARY  
SEP 22 1986  
University of Toronto*

SUBJECT: Announcement - Introduction of Information Bulletins  
and Interpretation Bulletins

### INTRODUCTION

In recognition of the need for greater public understanding of tax legislation, the Corporations Tax Branch of the Ontario Ministry of Revenue is introducing measures to assist corporations and their advisors in their dealings with the Branch. These measures include the publication of a new series of *Information Bulletins* and *Interpretation Bulletins*, and the provision of an advance rulings service for corporations.

### CONTENTS OF INFORMATION BULLETIN

The Information Bulletins will explain in general terms legislative changes in corporations taxation, as well as important changes in the Ministry's administrative practices and procedures. Since these bulletins will be devoted entirely to corporations tax, we anticipate they will be more directly useful to corporations and their advisors in complying with the provisions of the Act than the general bulletins which the Ministry has issued previously dealing with a number of taxes.

### CONTENTS OF INTERPRETATION BULLETIN

The Interpretation Bulletin will be designed to meet the special requirements of lawyers, accountants and other professional people engaged in tax practice, as well as to the staff of taxpaying corporations. The contents will include technical information on the Ministry's interpretation of sections of The Corporations Tax Act, and will publicize changes in these interpretations as they occur. The assessing practice of the Branch will conform with Interpretation Bulletins as long as they are in force and have not been cancelled or revised.

### INCOME TAX ACT (CANADA) AND ONTARIO CORPORATIONS TAX ACT

For purposes of consistency, much of The Corporations Tax Act parallels the provisions of the Income Tax Act (Canada). A corporation may calculate its taxable income for Ontario purposes in almost the same way as it is calculated for federal purposes. This practice will continue in all areas except those



where the Province pursues a separate policy. Therefore, our bulletins will avoid duplicating those of Revenue Canada. Instead, we will cite a Revenue Canada bulletin where the Ontario policy is identical to federal policy. The respective section numbers from both the federal and Ontario Acts will be quoted. An intention to differ from existing or future Revenue Canada bulletins will be made known as soon as possible. In the meantime Ontario's assessing practice will follow the federal bulletins.

#### *RECIPIENTS OF BULLETINS*

Information Bulletins and Interpretation Bulletins will be sent to all corporations on our tax roll. We realize that this may in some cases result in a person who is an officer or advisor to several companies receiving several copies. However, we will attempt to avoid such duplications to the extent that they can be identified.

The initial mailing of bulletins is also being sent to lawyers, accountants and others who are on our current mailing list. This mailing list is being updated and those who wish to continue to receive bulletins (other than corporations on the tax roll mentioned above) will be asked to notify the Ministry.

#### *HOW TO CONTACT US*

Our postal address and telephone number are:

Corporations Tax Branch,  
Ministry of Revenue,  
Queen's Park,  
Toronto, Ontario,  
M7A 1Y1.

Telephone: (416) 965-1160

The location of the Branch is:

77 Bloor Street West,  
12th Floor.

We would be pleased to assist corporations or their agents who wish to contact the Branch for general or specific information. We would also welcome any comments or suggestions on the contents of these new publications.

Please consult the list on page 3 for the operating areas of the Corporations Tax Branch and the personnel who may be contacted for information.



Reception and Information - 965-1160

- for (1) general enquiries.
- (2) obtaining Corporations Tax forms and bulletins.

Director - Corporations Tax Branch - 965-2953

Mr. Cyril Townsend

Tax Roll - 965-1004

- for (1) notifying changes in address.
- (2) cancellation requirements.
- (3) determining liability for taxation.

Supervisor: Mr. Bill Holloway

Accounts - 965-2948

- for (1) interest and/or penalty charges.
- (2) refunds of overpayment.
- (3) payments on account.

Supervisor: Mr. Ken Bone

Appeals - 965-5836

- for (1) notice of objection forms.
- (2) enquiries regarding formal objections to assessments.

Chief Appeals Officer: Mrs. Noreen Gomes

Liens - 965-2936

- for (1) lien clearances.

Supervisor: Miss Deltra Ireland

Tax Assessment - 965-1515

- for (1) enquiries regarding assessment notices.
- (2) enquiries concerning the completion of the Corporations Tax Return (CT23).

Chief Tax Assessor: Mr. Charles Amodeo

Legislative Interpretations - 965-4040

Chief Tax Specialist: Mr. Phil Trenton









Ministry  
of Revenue

Margaret Scrivener  
Minister

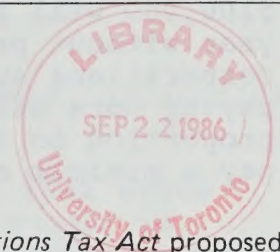
T.M. Russell  
Deputy Minister

## Corporations Tax Branch

# Information Bulletin

Number 3-77 Date: April 19, 1977

CA 20N  
RU 70  
-I52



Government  
Publications

## ONTARIO BUDGET 1977

This Bulletin summarizes major changes affecting *The Corporations Tax Act* proposed by the Treasurer of Ontario in the 1977 Budget released April 19, 1977. Other Bulletins deal with changes in other taxes.

### HIGHLIGHTS

- CAPITAL TAX – RATE INCREASE FOR CORPORATIONS WITH TAXABLE CAPITAL OVER \$100,000.
- OIL AND GAS PRODUCTION – FEDERAL RESOURCE ALLOWANCES AND EARNED DEPLETION TO BE PARALLELED.
- 250% DEDUCTION FOR INVESTMENT IN VIC'S.
- FAST WRITE OFF FOR MANUFACTURING AND PROCESSING ASSETS TO BE CONTINUED.
- INVENTORY ALLOWANCE – 3% OF TANGIBLE MOVABLE PROPERTY TO BE DEDUCTIBLE.

### OTHER ITEMS

- NEW REGULATION FOR C.C.A.
- INCREASE IN ANNUAL SMALL BUSINESS LIMIT IS NOW LAW.
- FEDERAL BILL C.22 (1976) TO BE PARALLELED.

#### CAPITAL TAX (SECTION 131)

The rate of tax applied to paid-up capital will be increased from 1/5 to 3/10 of 1% for corporations with taxable paid-up capital over \$100,000. The rate applicable to banks will be increased from 2/5 to 3/5 of 1%. Corporations with taxable paid-up capital up to \$50,000 will pay \$50. Those with taxable paid-up capital over \$50,000 and up to \$100,000 will pay \$100. There will be no change in the existing flat rates of \$50 and \$5 for certain special types of corporations (section 135).



The new rates will be effective in fiscal years ending after April 19, 1977. In fiscal years which straddle this date the increase in tax resulting from the change in rates will be prorated in proportion to the number of days subsequent to April 19, 1977.

Corporations with taxable paid-up capital up to \$100,000 will pay the applicable flat rate for the straddle year without proration. If they have a short fiscal year, corporations subject to the flat rate of \$100 and those paying more will be able to prorate their capital tax in proportion to the number of days in that year, but they must pay a minimum of \$50 (section 136).

#### *OIL AND GAS PRODUCTION (SECTION 62)*

Depletion allowances in respect of oil and gas income (including income from oil sands) will be changed. The present automatic depletion allowance of 33 1/3% will be removed and the following federal provisions paralleled instead:

- 25% resource allowance.
- earned depletion of \$1 for every \$3 spent, up to a maximum of 25% of resource profits.
- the additional earned depletion proposed in the federal budget on March 31, 1977, subject to the passage of enabling federal legislation. That is:- 66 2/3% of qualifying drilling costs in excess of \$5 million incurred between March 31, 1977 and April 1, 1980. This additional allowance is deductible from any income.

This change will apply to fiscal years ending after April 19, 1977. In fiscal years which straddle this date the change in tax payable will be prorated in proportion to the number of days subsequent to April 19, 1977.

#### *INVESTMENTS IN VENTURE INVESTMENT CORPORATIONS*

Corporations investing in the equity shares of a registered Venture Investment Corporation (VIC) will be entitled to deduct 250% of the investment from their Ontario taxable income. To the extent that this deduction is not used in the year of the investment it may be carried forward indefinitely.

Upon sale or redemption of the VIC shares 250% of the proceeds will be included in the Ontario taxable income of the investing corporation in the year of disposition, up to the amount of the original deduction. Proceeds in excess of the amount originally invested will be taxed as capital gains. Corporations will not be allowed to deduct a capital loss on



disposal of VIC shares in excess of the amount of Ontario tax deferred on them.

VIC's themselves will be taxed in the normal manner.

Legislation to effect these changes will be introduced following the passage of the Venture Investment Corporations Act, 1977.

*FAST WRITE OFF, MANUFACTURING AND PROCESSING ASSETS (REGULATION SECTION 301(8))*

Federal regulation 1100(1)(y) provides fast write off in class 29 (50%) for machinery and equipment used in manufacturing and processing in Canada. At the present time the Ontario regulation requires that the asset be completely manufactured and acquired, or leased, before 1978 to be eligible for this write off.

This restriction will be removed. The fast write off will therefore be extended indefinitely and will parallel the federal treatment.

*INVENTORY ALLOWANCE*

The inventory allowance proposed in the federal budget of March 31, 1977 will be paralleled, subject to the passage of enabling federal legislation. Corporations will be allowed a deduction from income equal to 3% of tangible movable property included in inventory on hand at the beginning of the year. In a short fiscal year the allowance will be prorated in accordance with the number of days in that year.

This change will be effective in fiscal years commencing after December 31, 1976.

*CAPITAL COST ALLOWANCE (REGULATION SECTION 301)*

Changes are being made to this regulation and it will no longer require corporations to deduct the same amount or same proportion of capital cost allowance as is deducted at the federal level.

Corporations will now be free to claim C.C.A. which differs from that claimed for the same class of assets at the federal level, if they so wish. The maximum rate of C.C.A. allowed and the class designations will remain unchanged and are determined under the federal regulations.

When a corporation wishes to claim C.C.A. different from that claimed at the federal level it will be required to file with its return an Ontario C.C.A. schedule in addition to a copy of its federal C.C.A. schedule. If the same C.C.A. is claimed at both levels, only the federal C.C.A. schedule need be filed with the Ontario return.



INCREASE IN ANNUAL SMALL BUSINESS LIMIT (SECTION 106a(2))

The Corporations Tax Amendment Act No. 2 1976 increased the annual limit to income that is eligible for the preferential rate of 9% from \$100,000 to \$150,000, effective in fiscal years ending after April 6, 1976. This Act was proclaimed in force on February 24, 1977.

Proclamation of this Act was delayed pending passage of the equivalent federal amendment. Corporations affected by the change and which have indicated on their returns the increased amount will be assessed accordingly. Those which are affected but have not shown the higher amount may file amended returns

FEDERAL BILL C.22 (1976)

The changes to the federal Income Tax Act which were contained in Bill C.22 (1976) became law on February 24, 1977. The changes included in this legislation, to the extent that they have application to corporations in Ontario, will be paralleled in The Corporations Tax Act with one major exception. The existing Ontario provisions relating to exploration and development expenses for all resource companies will be retained. The change in the percentage of exploration expenses to be allowed at the federal level will not apply.

The application dates for these changes will be the same as those set at the federal level.

-----

Interpretation Bulletins to explain these changes in greater detail will be issued after they become law.





Ministry  
of Revenue

Margaret Scrivener  
Minister

T.M. Russell  
Deputy Minister

## Corporations Tax Branch

# Information Bulletin

Number 4-77 July 4, 1977

CA 20N  
E470  
- 152

SUBJECT: Dissolution of Corporations for Failure to Comply  
with The Corporations Tax Act

### DISSOLUTION

1. Section 251(1) of The Business Corporations Act was amended in 1976 in conjunction with the enactment of The Corporations Information Act of 1976. The amended section 251(1) gives to the Minister of Consumer and Commercial Relations the power to dissolve a corporation when he has been notified by the Minister of Revenue that the corporation is in default in complying with the provisions of The Corporations Tax Act, 1972.
2. It is imperative that corporations comply with all provisions of The Corporations Tax Act including the timely filing of returns and the payment of all taxes when due. Failure to respond, after notice, may result in dissolution, the consequences of which can be severe including the forfeiture to the Crown of any real or personal property of the corporation at the date of its dissolution.
3. To exercise the power to dissolve a corporation, the Minister of Consumer and Commercial Relations will give notice either by registered mail to the corporation or by publication once in the Ontario Gazette. The dissolution will take place within 90 days after the giving of a notice.

### REVIVAL

4. A corporation that has been dissolved may be revived, at the discretion of the Minister of Consumer and Commercial Relations, if application for revival is made within two years of the date of dissolution. This application must be accompanied by a consent of the Minister of Revenue to the revival of the corporation. Before this consent is given all returns due for the period before and subsequent to the dissolution must be filed and all taxes owing must be paid.
5. Revival of a corporation's charter after the two years can be accomplished only through a Private Member's Bill. A certificate from the Minister of Revenue, showing that all taxes payable under The Corporations Tax Act to date



have been paid, must be given to the Clerk of the House before the bill can be introduced.

#### *CONSENTS AND CERTIFICATES*

6. If you have questions concerning the consent to revival or the certificate of taxes paid, mentioned above, contact:

Corporations Tax Branch,  
Tax Roll Section,  
Queen's Park,  
Toronto, Ontario,  
M7A 1Y1.

Telephone: (416) 965-1004

#### *FURTHER INFORMATION*

7. For additional information concerning dissolution of corporations and revivals of charter contact:

Corporations Information Section,  
Companies Services Branch,  
Ministry of Consumer and Commercial  
Relations,  
555 Yonge Street,  
Toronto, Ontario,  
M7A 2H6.

Telephone: (416) 965-5424





Ministry  
of Revenue

Margaret Scrivener  
Minister

T.M. Russell  
Deputy Minister

## Corporations Tax Branch

# Information Bulletin

Number 5-77

July 4, 1977

CA20N  
RU70  
-152

SUBJECT: Provision of Lien Clearances

### STATUTORY LIEN

1. Section 167 of The Corporations Tax Act creates a lien on the property of a corporation in respect of the taxes, interest and penalties that are imposed by the Act. This provision is at present effective from January 1, 1968. Purchasers of property that has been owned by a corporation during a period since that date cannot be certain of obtaining clear title unless a lien clearance is obtained from the Corporations Tax Branch. Property is very broadly defined in section 1(1)(58) of the Act to include everything that could have value to the corporation.

### LIEN CLEARANCES

2. Although requests for lien clearances are usually made by lawyers on behalf of purchasers, mortgagees or lessees, they are also received from corporations in respect of property which they are proposing to sell. Once a lien clearance is given on a specific property it is honoured with respect to that property and the subject corporations regardless of who obtained it. However, it is binding only if used for the transaction for which it was obtained and only to the date stated in the clearance.
3. When a lien clearance is given it is honoured for 30 days from the date specified in the clearance to allow the transaction to close. If the transaction is not closed within 30 days, a request must be made for the clearance to be extended with respect to the corporation which currently owns the property. If no liability has arisen in the meantime the clearance will be extended. It will not of course be necessary to extend a clearance for any prior corporate owners.

### COMPLIANCE TO DATE

4. Lien clearances may be requested with respect to any specific property of which the corporation in question is or has been the registered or beneficial owner since January 1, 1968. A clearance will be given if the corporation in question has filed returns, complete with appropriate financial statements, and has paid all taxes



owing for the fiscal years in which it owned the property. Where a clearance is requested for a corporation which is currently on title, a clearance "to date" will be given if the corporation has met its requirements up to and including its previous fiscal year and has real property remaining.

#### *DISPOSITION OF LAST PROPERTY*

5. When a lien clearance is requested in respect of a transaction which will result in the sale of all, or substantially all of the real property of a corporation, a copy of the sale agreement is requested together with the corporation's calculation of taxable income from this sale. Also requested is information on its other income since its last return. This material is quickly reviewed by auditors of the Branch and if a tax liability is indicated the amount of tax, or security for payment of the tax, is obtained before a lien clearance is granted.
6. If a mortgage is taken back by a corporate vendor for part of the sale price the corporation may be able to claim a mortgage reserve, which will result in some tax being deferred. In this event an undertaking will be requested from the corporation, under seal, not to encumber, assign or give a discharge of the mortgage until the deferred taxes have been paid or secured.

#### *SALE OF A MORTGAGE*

7. The sale of a mortgage by a corporation is treated similarly to the sale of any other property. Where a corporation has set up a reserve under section 24(1)(p) then section 24(2) requires the corporation to obtain the Minister's consent and to provide in writing the names of purchasers, pledgees, or assignees and the amount of cash to be received for the security before it is disposed of. This may be effected by including this information with a request for lien clearance. A corporation must be up-to-date with its returns and payments as outlined in the preceding paragraphs. If the company has given the Branch an undertaking not to dispose of that particular mortgage, an immediate calculation of tax may be made and payment, or some alternative security, required before the release of the undertaking.

#### *PRIORITY REPORT FOR MORTGAGE PURPOSES*

8. When a corporation is using property as security for borrowing money (e.g. real property mortgage) a mortgagee may request that a lien clearance be given. In these circumstances the Branch will not give a lien clearance in the manner set out above but will provide a report in the form of a notice of statutory lien. If the company is up-to-date with its filing of returns and payment of taxes our report will state: "... although there is a statutory lien for taxes, interest and penalties imposed under The Corporations Tax, 1972 against: ... the Province of



Ontario claims no priority over the mortgage and to future advances under that mortgage for such taxes, interest and penalties and will claim to be a subsequent encumbrancer to the mortgage and to future advances made under it providing it is registered, and the first advance under the particular mortgage is made within 30 days of the date of issue of this letter. In any foreclosure action or sale under power of sale, the Province shall be joined as a subsequent encumbrancer." This is not a clearance for the sale of the property.

9. In some cases a loan is secured by a floating charge. In these cases the Branch does not use a reference to "no priority". The floating charge may not terminate for an extended period of time and will also cover other assets acquired in later years. The report provided by the Branch in these cases is simply a guide to the lending company stating that the corporation concerned has filed its returns and paid tax as estimated up to and including a specific year.

#### *CONFIDENTIALITY OF TAXPAYER INFORMATION*

10. It is of the utmost importance that confidentiality of information received from taxpayers be respected. In many cases it is necessary to contact representatives of the corporation in respect of which the clearance is requested to obtain the information necessary to determine whether a liability exists and how much is involved. It is not possible to indicate to the person requesting the clearance what information is required or to estimate the delay which may result in obtaining it. For these reasons lawyers and others are reminded that the Branch cannot guarantee to provide a lien clearance on short notice and they should therefore make their requests in good time before the transaction closes.

#### *ADDRESS FOR LIEN CLEARANCES*

11. Requests for lien clearances should be sent to:

Liens Section,  
Corporations Tax Branch,  
Ministry of Revenue,  
Queen's Park,  
Toronto, Ontario,  
M7A 1Y1.

Telephone: (416) 965-2936

The location is:

77 Bloor Street West,  
12th Floor.









Ministry  
of Revenue

Margaret Scrivener  
Minister

T.M. Russell  
Deputy Minister

## Corporations Tax Branch

# Information Bulletin

Number 6-77 November 14, 1977

SUBJECT: New Legislation (Bill 15) - Capital Tax  
Regulations - Capital Cost Allowances

### GENERAL

1. Bill 15 amended The Corporations Tax Act, 1972 and implemented some of the changes announced in the Budget of April 19, 1977. These changes were described in Information Bulletin Number 3-77 dated April 19, 1977. The bill received Royal Assent on July 12, 1977.

### CAPITAL TAX (SECTION 131)

2. New capital tax rates implemented by section 4 of Bill 15 will apply to fiscal years ending after April 19, 1977. The new rates are as follows:

<u>Taxable Paid-up Capital in Ontario</u>	<u>Rate</u>
<u>Corporations other than Banks</u>	
\$ 0 - \$ 50,000	\$ 50
\$50,001 - \$100,000	\$100
over \$100,000	3/10 of 1%
<u>Banks</u>	3/5 of 1%
<u>Certain Special Types of Corporations</u> (section 135)	\$5

### PRORATION

3. Section 7(2) of the bill provides that in fiscal years which straddle April 19, 1977, corporations with taxable paid-up capital over \$100,000 will prorate the increase in capital tax resulting from this change. This is done by calculating the capital tax payable, firstly under the amended provisions, and secondly under the provisions as they stood before Bill 15 was passed. The amount arrived at in the first calculation is reduced in the proportion that the number of days *after* April 19, 1977 bears to the total number of days in the fiscal year. The amount arrived at in the second calculation is reduced in the proportion that the number of days *before* April 20, 1977 bears to the total number of days. The tax payable is the sum of the two reduced amounts.



4. Corporations which will now pay \$50 or \$100 may *not* prorate but will pay the capital tax payable under the new provisions. There is one exception to this rule, however. Corporations whose fiscal year is less than 365 days (including those that will now pay \$100) may use the provisions of section 136 to reduce their capital tax payable in the proportion that the number of days in their year bears to 365, *subject to a minimum payable of \$50.*
5. Corporations Tax Annual Return CT23 has been revised and the forms now being issued provide for these calculations.

*INSTALMENTS (SECTION 148)*

6. You are reminded that instalments are required when the estimate of the amount of tax due for a fiscal year is \$2,000 or more. Because of the change in capital tax rates it may be necessary to make a new estimate, and to increase the amount of each instalment.
7. Estimates are made at current year's rates on the amount subject to tax for *either* the previous year or the current year. The following figures illustrate a corporation with a current year column (c) and two alternative previous years:

	Previous Year (a)	Previous Year (b)	Current Year Estimate (c)
Income Tax	\$1,800	\$2,100	\$1,260
Capital Tax - old rates	600	700	1,050
Original Estimate	\$2,400	\$2,800	\$2,310
Increase in Capital Tax	210	250	370
Revised Estimate	\$2,610	\$3,050	\$2,680

A corporation whose previous year is column (a) would have based its estimate on current year expectations and calculated its instalments at one-sixth of \$2,310. It should revise its figures and would now elect to base its estimate on the previous year. It should therefore increase each of its remaining instalments by one-sixth of \$300 (\$2,610 - \$2,310). If its previous year were column (b) it would continue to base its estimate on the current year and would increase its remaining instalments by one-sixth of \$370 (\$2,680 - \$2,310).

8. The balance of tax due at the end of the second or third month of the following year will be, in every case, the tax payable for the current fiscal year less the total of all instalments paid. The due date is the last day of the third



month of the following year if the corporation has made a small business deduction under section 125 of the Income Tax Act (Canada) in either the current or the previous fiscal year. In other cases it is the last day of the second month.

#### RESOURCE ALLOWANCES (SECTION 24(1)(x))

9. Section 1 of Bill 15 adds a paragraph to section 24. The effect of this change is to permit the setting of a resource allowance for oil and gas corporations by regulation. Previously there was no resource allowance. Regulations setting out details of this allowance will be filed in the near future. Details will be given in an Interpretation Bulletin in due course.

#### DEPLETION ALLOWANCE (SECTION 62)

10. Section 2 of Bill 15 amends section 62 of The Corporations Tax Act. The effect of this change is to permit the setting of depletion rates by regulation. Previously the rate was contained in section 62 and the base upon which it applied was described in section 302 of the regulation.

#### CAPITAL COST ALLOWANCES

11. Regulation 504/77 was filed on July 14, 1977. This regulation amends section 301(1) of regulation 350/73 under The Corporations Tax Act, 1972 and revokes section 309(4). Corporations are no longer required to claim the same amount, or same proportion, of capital cost for Ontario C.C.A. as they claim at the federal level. This change applies to fiscal years ending after December 31, 1976.
12. The content of classes of assets and maximum rates remain as set out in federal regulations under the *Income Tax Act (Canada)*. Corporations who may benefit from this change will be those who do not wish to claim the full allowance available in a fiscal year at the federal level because it is not to their advantage, but wish to claim at the Ontario level a greater or lesser amount than they claimed at the federal level.
13. A corporation that wishes to claim C.C.A. different from that claimed at the federal level will be required to file with its Ontario Corporations Tax Return, CT23, a schedule setting out details of the Ontario C.C.A. calculation in addition to a copy of its federal C.C.A. schedule. An Ontario C.C.A. schedule will not be necessary if the same C.C.A. is claimed at both levels, and the undepreciated capital cost amounts in each class are the same at both levels. A copy of the federal schedule will suffice in those circumstances.







Ministry  
of  
Revenue

Lorne Maeck  
Minister

T.M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

Number 7-78

February 1, 1978

CA 20N  
RU 70

- I 52

SUBJECT: Major Revisions to The Corporations Tax Act - Bill 88, 1977  
Changes relating to Notices of Objection and Appeal are described in Bulletin Number 8-78.  
Bulletin Number 9-78 describes the tax measures introduced for Venture Investment Corporations and Bulletin Number 10-78 provides a summary of policy differences between Ontario and federal legislation.

## INTRODUCTION

Bill 88 received Royal Assent on December 8, 1977. This bill introduces a new legislative approach to the taxation of corporations in Ontario. A significant amount of simplification has been achieved by adopting the provisions of the Income Tax Act (Canada), instead of attempting to parallel them by corresponding sections in The Corporations Tax Act. The Corporations Tax Act will now be a much smaller piece of legislation and the relationship with the federal Act will be more certain and direct.

## HOW SIMPLIFICATION IS ACHIEVED

Until now a large part of The Corporations Tax Act has paralleled the language used in the Income Tax Act (Canada). However, exact parallel has never been possible because the structure of the two Acts is not the same and different definitions have been used in some cases. As a result there were some areas of uncertainty whether the intention of the wording was the same as that of the federal Act.

These problems are overcome by the passage of Bill 88. Section 1 of the Act as now amended will make the interpretations contained in Part XVII of the Income Tax Act (Canada) applicable for the purposes of The Corporations Tax Act except for those differences which are spelled out. Sections 14 to 49 of the Act now adopt the provisions of Divisions B to H (except Division E) of the Income Tax Act (Canada) which apply to corporations, with the exceptions spelled out in those areas in which Ontario has a different policy.

## BENEFITS TO TAXPAYING CORPORATIONS

With the passage of Bill 88 it is now clear that where the intention is for the law to be the same as the federal law, it is the same because the same words are used. Taxpayers and

their representatives will no longer have to make careful examination of the detailed wording of two separate Acts. Where there are policy differences these will now be clearly highlighted by distinct wording in the appropriate sections of The Corporations Tax Act.

It will no longer be necessary to make large numbers of amendments each year to match changes in the federal legislation. In future, amendments will be necessary only when Ontario does not wish to follow federal changes, or wishes to change one of the areas in which the Ontario policy is different. Taxpayers will be saved the task of comparing the detailed wording of amendments at the respective levels.

#### *ADMINISTRATIVE PROVISIONS RETAINED*

The sections of The Corporations Tax Act contained in Part VI, which include the administration and enforcement provisions, are all retained. A change is made to the effective date of the statutory lien, as described below. The sections contained in Part V, which govern the making of returns, payments and assessments are also retained but they are subject to some amendments which are set out in this bulletin.

#### *POLICY DIFFERENCES PRESERVED*

Those areas in which Ontario already has policy differences to the federal legislation are preserved by the passage of Bill 88. The differences are listed in Information Bulletin Number 10-78. Future changes to these policy differences, or additions to them when Ontario does not choose to adopt federal changes, will be announced as they arise.

As part of the adoption of federal terminology and provisions some basic definitions formerly used in The Corporations Tax Act are now changed. Among them is "fiscal year". This term is now replaced by the federal term "taxation year" with exactly the same meaning.

The term "corporation" is still used but now has the meaning given to it by the Income Tax Act (Canada). It now includes corporations without share capital as well as those with share capital. All non-share capital corporations are now subject to the provisions of The Corporations Tax Act, but non-profit and charitable corporations will not have to pay corporations tax nor file returns. These corporations together with those formerly subject to a special capital tax of \$5.00 under section 135 are now exempt from the payment of capital tax by section 49 and section 135 of the Act as now amended.

#### *OTHER CHANGES*

Several changes have been made by Bill 88 as part of the process of simplification.

*gross  
revenue*

The definition "gross revenue" has now been changed to that used in section 248(1) of the Income Tax Act (Canada) (section 1(1)(a)).



<i>family farm</i>	The definition of "family farm corporation" now includes those of which the shares are held by another family farm corporation (section 1(1)(d)).
<i>non-resident corporation</i>	A non-resident corporation which is carrying on business in Ontario is now subject to corporations tax. Previously such corporations were subject to corporations tax only if they carried on business through a permanent establishment in the Province (section 2).
<i>inventory of land</i>	The Act now provides that an Ontario value for land that is in inventory must be calculated, if interest and taxes relating to the land have been treated differently than at the federal level in calculating income for Ontario purposes. If it has not been treated differently then the value used for land and all other inventory must be the same as at the federal level (section 14(2)).
<i>non arm's length payments</i>	It also changes the method used to tax management fees, royalties, rents and similar payments paid to a related non-resident corporation. Formerly 5/12 of such amounts could not be deducted from income. The rule now is that 5/12 of such amounts must be added to income (section 14(6)).
<i>advertising</i>	The expenses of advertising on foreign broadcasting undertakings can no longer be deducted in calculating taxable income. These expenses will now be treated in the same way as expenses of advertising in a non-Canadian newspaper or periodical and will conform with the federal treatment of both items by the adoption of section 19 and section 19.1 of the Income Tax Act (Canada). Effective dates are the same as in the federal Act (section 14(1)).
<i>gifts to a province</i>	Gifts to Her Majesty in the right of another Province are now fully deductible. The limit that previously applied to such gifts (20% of income) has been removed.
<i>shareholder loans</i>	The reference in the Act to loans indirectly from a shareholder has now been clarified to specifically include loans from a person related to a shareholder. Any such loans must be included in paid-up capital (section 126(1)(d)).
<i>investment allowance</i>	The investment allowance permitted as a deduction from paid-up capital will now be limited to the value of the investments used in the formula by which this allowance is calculated. A corporation will not be able to deduct more than the value of its eligible investments (section 127(1)(c)).
<i>discount on shares</i>	A second amendment to this section permits the amount of discount allowed on the sale of shares of the corporation to be deducted from paid-up capital. Formerly this deduction was available only to mining companies (section 127(1)(b)).

*final  
payments*

Small businesses may make their final tax payment three months after the end of their taxation year if they have claimed a small business tax credit in either the current or the previous year. Formerly the reference was to a small business tax credit in the previous year only. The new provision will be the same as the federal one. Companies which do not qualify as small businesses must make their final payment at the end of the second month after their taxation year (section 148(3)(b)).

*determination  
of losses and  
capital gains  
refunds*

The Act now allows the Minister to determine the amount of capital gains refund to mutual fund, investment or other corporations. It also allows the Minister to determine the amount of a corporation's losses. This change is made to give corporations a right to appeal the amount calculated. Legal costs of such an appeal will be deductible (section 150).

*credit  
interest*

Interest credited on account of instalment payments overpaid may now be refunded to a corporation. Formerly credit interest on instalments was allowed only to the extent that it offset debit interest on underpaid instalments (section 153(1)).

*statutory  
lien*

The lien provisions of the Act will now apply only to the period subsequent to 1972. The start of the lien period will be moved forward one year at the end of each calendar year, so that it will never exceed six years. The first paragraph of Information Bulletin Number 5-77 should now be amended to reflect this change. Lien clearances should not be requested in respect of dates prior to 1973 (section 167).

#### RECENT FEDERAL LEGISLATION

Changes announced in the federal budget of May 25, 1976 which were enacted in Bill C-22 (1976) are matched in Ontario by the adoption of the federal provisions as they now stand. They have the same effective dates as in Bill C-22. Changes announced in the federal budget of March 31, 1977 and the economic and fiscal statement of October 20, 1977 and which are now included in Bill C-11 (1977) will also be matched by the passage of Bill 88.

#### EFFECTIVE DATES

Where effective dates are not separately mentioned above the provisions described in this bulletin apply to corporations in respect of taxation years ending after December 7, 1977.





Ministry  
of  
Revenue

Lorne Maeck  
Minister

T.M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

Number 8-78

February 1, 1978

CASDN  
RU 70

-152

SUBJECT: Changes to Some Provisions Relating to Notices of  
Objection or Appeal - The Corporations Tax Act

## INTRODUCTION

Bill 88, which received Royal Assent on December 8, 1977, introduced several changes designed to simplify The Corporations Tax Act. Examples of such changes occur in the objections and appeals provisions.

## DESIGNATED ASSESSMENT

An important change is being made in those instances in which a corporation that has been re-assessed by Revenue Canada receives a corresponding re-assessment on the same basis from this Branch. In future such re-assessments, or parts of re-assessments, will carry the indication "designated assessment" (section 160b(1)).

## OBJECTIONS TO DESIGNATED ASSESSMENTS

A corporation receiving a "designated assessment" to which it wishes to object on the same basis as its objection to the federal re-assessment need no longer serve a Notice of Objection on this Branch. The corporation and the Minister will be bound automatically by the decision of the Minister of National Revenue, by the decision of the Tax Review Board, and by the decision of a Court of Competent Jurisdiction, if proceedings are taken that far. The Branch will, where necessary, re-assess the corporation in accordance with any such decision (section 160b(2)).

## OPTION TO SERVE NOTICE OF OBJECTION

A corporation which does not wish to be bound automatically in this way still has the option to serve on the Minister a Notice of Objection to the designated assessment in accordance with the provisions of section 154 (section 160b(1)(d)).

## EXTENSION OF TIME TO SERVE NOTICE OF OBJECTION

A new section now permits the Minister to extend the time for a corporation to serve a Notice of Objection, or Notice of Appeal. Without this extension a notice must be served within

90 days of mailing by the Branch of the assessment or re-assessment to which the notice applies (section 160a).

The Branch will not accept Notices of Objection which are not accompanied by Statement of Facts and Reasons.

#### *APPLICATION FOR EXTENSION OF TIME*

To obtain an extension of time for serving a Notice of Objection, or Appeal, application must be made in writing before the expiry of the 90 days mentioned above. It should state the length of extension required and give reasons to support the request.

The application should be addressed to the Director, Corporations Tax Branch, Parliament Buildings, Queen's Park, Toronto, Ontario, M7A 1Y1.

Corporations that believe they will have to apply for an extension should bear in mind that it must be considered and a decision made before the 90 day period is over. They should therefore make their application as soon as possible to avoid the possibility that the period may expire and they will no longer be able to serve a Notice of Objection if the extension is not granted.

#### *REASONS FOR EXTENSION OF TIME*

Extensions of time for serving a Notice of Objection or Appeal will be granted only when there are compelling reasons. Recurring pressures such as workload, vacation or stocktaking will not alone be accepted as reason enough.

#### *ASSESSMENTS NOT INVALIDATED BY NEW ASSESSMENT*

An amendment to the Act now makes it unnecessary for a corporation to serve a new Notice of Objection simply because a re-assessment or an additional assessment has been issued for a year that is under objection. Formerly it was necessary to serve a new notice whenever a re-assessment was issued. The corporation may, if it wishes, serve an additional Notice of Objection in respect of new matters raised in the re-assessment, or if the new matters are contained in a "designated assessment" it may rely on its notice at the federal level. The same considerations apply in respect to a Notice of Appeal (section 154(6)).

#### *SECURITY FOR COSTS NO LONGER REQUIRED*

Corporations that proceed to appeal are no longer required to pay into Court security for costs when an appeal is instituted. It is also clarified that appeals shall be heard in the High Court (section 155).

#### *EFFECTIVE DATES*

The changes noted in this bulletin are all effective from December 8, 1977.





Ministry  
of  
Revenue

Lorne Maeck  
Minister

T.M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

CA2 DIV  
R470

-152

Number 9-78

February 1, 1978

SUBJECT: Tax Incentives for Investment in a Venture Investment Corporation (VIC)

## INTRODUCTION

Included in Bill 88 which received Royal Assent on December 8, 1977 were the provisions necessary to give effect to the tax incentives announced in the Budget of April 19, 1977 to encourage corporations to invest in venture investment corporations. These are spread throughout The Corporations Tax Act.

The Venture Investment Corporations Registration Act, 1977, which received Royal Assent on July 12, 1977, introduced the legislation to authorize the establishment of these corporations and the rules they have to meet to maintain registration as VIC's. This legislation is being administered by the Ministry of Consumer and Commercial Relations. These corporations will pay income tax and capital tax in the normal way.

Both pieces of legislation were proclaimed in force and are effective from January 1, 1978.

## DEDUCTION FROM TAXABLE INCOME

Corporations which invest in a VIC will be allowed to deduct from their taxable income in the year of investment an amount equal to  $2\frac{1}{2}$  times the cost of the VIC shares. Where they cannot deduct the whole of this amount in one year the portion undeducted may be carried forward and deducted in any subsequent year (section 31).

## SALE OF VIC SHARES

When the shares of the VIC are sold the investing corporation will be required to add to its income in the year of the sale an amount equal to  $2\frac{1}{2}$  times the lesser of:-

- (a) the proceeds from the sale, or
- (b) the cost of the shares (section 16(4)).

Where a capital loss is incurred in the sale it will be allowed only to the extent that it exceeds the amount already deducted on the purchase of the shares (section 15(5)).

#### *DEEMED SALE OF VIC SHARES*

In each of the circumstances outlined below the shares will be deemed to have been sold and the corporate investor will be required to add to its income  $2\frac{1}{2}$  times the cost of the shares:-

- (a) the corporation ceases to have a permanent establishment in the Province (section 16(5)),
- (b) the VIC's registration is revoked (section 16(4)(b)), or
- (c) the shares are transferred to another corporation in an amalgamation or winding up (section 25(5)).

#### *TAX INCENTIVE NOT REDUCED BY ALLOCATION OF INCOME*

Deductions from and additions to income resulting from transactions in VIC shares will relate only to Ontario income and will not be affected by allocation to other Provinces if the corporation operates in jurisdictions outside Ontario (sections 16(4), 31(1)(a)(ii)).

#### *NON CAPITAL LOSS NOT ALLOWED*

Corporations that have incurred a non capital loss on the disposition of VIC shares will not be allowed to deduct the loss in computing taxable income (section 14(12)).

#### *REGISTRATION OF VIC's*

For information on the registration of Venture Investment Corporations, please contact the Ontario Securities Commission, 10 Wellesley Street East, Toronto, Ontario, M7A 2H7.  
Attention: Mr. J. Sedlak, Telephone: 963-0259.





Ontario

Ministry  
of  
Revenue

Lorne Maeck  
Minister

T. M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

CA 20N  
RU 70

-152

Number 11-78

March 7, 1978

## ONTARIO BUDGET 1978

This Bulletin describes changes in *The Corporations Tax Act*, proposed by the Treasurer of Ontario in the 1978 Budget released on March 7, 1978. Information Bulletin Number 12-78 describes administrative changes included in the bill now before the Legislature.

### HIGHLIGHTS

- INSURANCE COMPANIES—PREMIUMS TAX REDUCED TO 2% ON ACCIDENT, SICKNESS AND ALL LIFE INSURANCE PREMIUMS. CHANGES IN THE FEDERAL INCOME TAX TREATMENT TO BE PARALLELED.
- LOAN AND TRUST COMPANIES—TO PAY CAPITAL TAX ON THE SAME BASIS AS BANKS.
- TAX TREATMENT OF GOVERNMENT ASSISTANCE PROGRAMS WILL PARALLEL THE FEDERAL PROVISIONS.
- CAPITAL COST ALLOWANCE ON MULTIPLE RENTAL HOUSING—THE PROVISION PERMITTING THIS TO BE DEDUCTED FROM ANY INCOME IS EXTENDED FOR ONE YEAR.
- FAST WRITE-OFF FOR POLLUTION CONTROL EQUIPMENT IS EXTENDED FOR ONE YEAR.
- CORPORATIONS TAX INSTALMENTS WILL NOW BE REQUIRED AT THE END OF EACH MONTH.

#### INSURANCE COMPANIES - INCOME TAX AND PREMIUMS TAX TREATMENT (SECTIONS 46 AND 143)

Several changes in the income tax treatment of insurance companies were made in federal Bill C-11 which became law on December 15, 1977. These changes have been adopted automatically by Ontario under section 46.

The rate of tax on insurance premiums is reduced from 3% to 2% on premiums received under contracts of accident insurance, sickness insurance and life insurance. The 3% rate will continue to apply to premiums for all other types of insurance. The additional tax of  $\frac{1}{2}$  of 1% on premiums for property insurance will also continue.

This change is effective March 8, 1978 and applies to taxation years ending after March 7, 1978. For taxation years which straddle this date the increase will be pro-rated in proportion to the number of days after March 7, 1978.

*LOAN AND TRUST CORPORATIONS - TAXABLE PAID-UP CAPITAL (SECTIONS 126(3), 127(2a), 131(2), 132(2))*

The taxable paid-up capital of corporations which are registered to carry on business under The Loan and Trust Corporations Act will be calculated in the same manner as for banks. These corporations will, therefore, include the following items in their taxable paid-up capital:

- paid-up capital stock,
- earned, capital, and any other surplus,
- reserves, except those allowed as a deduction in computing taxable income (section 126(3)).

Surpluses include retained earnings and contributed surplus. Reserves include deferred taxes and differences between depreciation charged in the books and capital cost allowances claimed. No investment allowance or other deduction will be allowed (section 127(2a)). The rate of tax applied to the portion of taxable paid-up capital which is allocated to Ontario is 3/5 of 1% (section 131(2), 132(2)).

This change applies to taxation years of corporations ending after March 7, 1978. For taxation years that straddle this date the change in capital tax resulting from these amendments will be pro-rated in proportion to the number of days after March 7, 1978.

*TREATMENT OF GOVERNMENT ASSISTANCE PROGRAMS - (SECTIONS 14(4)(a) AND (b), 15(4)(c))*

The treatment of government assistance for the acquisition of depreciable property will now parallel the federal provisions by removing the exception to section 13(7.1) of the Income Tax Act (Canada). That section will now be applicable in Ontario and corporations must deduct from the undepreciated capital cost of their assets the amount of assistance received, less any part repaid. Grants, subsidies, loans, allowances or deductions from tax are all included in the definition of government assistance. Formerly, it was not necessary to deduct any tax credits from U.C.C. A similar change is made with respect to assistance related to a deductible expense. The permissible deduction will be reduced by the amount of assistance (section 14(4)(a) and (b)).

A corresponding change is made in respect of capital gains. The amount of government assistance received, less any part repaid, must now be deducted from the adjusted cost base of capital property. This is achieved by the repeal of section 15(4)(c)(i).

This change is effective for property acquired and for expenses incurred after March 7, 1978.



*CAPITAL COST ALLOWANCES ON MULTIPLE UNIT RESIDENTIAL BUILDINGS  
(REGULATION SECTION 301)*

Ontario parallels the federal provision which permits the capital cost allowance on certain multiple unit residential buildings defined in federal capital cost class 31 to be deducted from any source of income. This provision is extended one year by moving to 1979, the date before which the building must be commenced. This date appears in the capital cost class. Ontario will parallel this extension by virtue of regulation section 301 which adopts the definition in class 31.

*POLLUTION CONTROL EQUIPMENT - (REGULATION SECTION 301)*

Pollution control equipment acquired within certain time periods which comes within the definitions in federal capital cost classes 24 and 27 is eligible for fast write-off over two years. These time periods are extended by one year to the end of 1979. This change also is effected by virtue of regulation section 301 which adopts the definitions and dates included in these classes.

*INSTALMENT PAYMENTS - (SECTION 148(3))*

Corporations whose estimated tax payable is \$2,000 or more will be required to pay their tax in twelve instalments instead of six instalments presently required. An instalment will be due at the end of each month in the taxation year and will be calculated as follows:

- (a) 1/12 of the estimated tax payable for the current taxation year, or
- (b) 1/12 of the estimated tax payable based on the previous taxation year, or
- (c)
  - (i) at the end of each of the first two months - 1/12 of the estimated tax payable based on the taxation year immediately preceding the previous taxation year, and
  - (ii) at the end of each of the remaining ten months - 1/10 of the amount remaining when the amount paid in the first two months is deducted from the estimated tax payable based on the previous taxation year.

The estimated tax payable based on a prior year is calculated by applying the rates of tax in the current year to the taxable income and other subject of tax in the prior year. This change will apply to taxation years commencing after June 30, 1978.







Ministry  
of  
Revenue

Lorne Maeck  
Minister

T. M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

CA 2 DIV  
RU 70  
- I 52

Number 12-78

March 28, 1978

## ADMINISTRATIVE CHANGES

The following are the administrative changes included in Bill 28 to amend *The Corporations Tax Act* which is now before the Legislature.

### SUMMARY

- RULES ARE MADE TO DETERMINE THE VALUE OF ASSETS AND RESERVES ON COMMENCING OPERATIONS IN ONTARIO.
- CALCULATION OF INTEREST ON TAX DEFICIENCY OR OVER-PAYMENT IS CLARIFIED.
- INTEREST IS TO BE CHARGED ON TAX DEFICIENCY ARISING FROM A REFUND OF TAXES PREVIOUSLY PAID.
- CHANGES ARE MADE TO PARALLEL FEDERAL BILL C-11 IN THE FOLLOWING:  
BASIS FOR PENALTY ON UNDERESTIMATED INCOME, DETERMINATION OF LOSS, TAXATION OF COMMUNAL ORGANIZATIONS, RESOURCE PROPERTIES (EXCEPT PARTNER'S PROCEEDS AND SASKATCHEWAN NET ROYALTY PAYMENTS).

#### CORPORATIONS COMMENCING OPERATIONS IN ONTARIO - (SECTION 12(3))

Rules will be added to the Act to cover the situation of a corporation that has been carrying on business outside Ontario and becomes subject to Ontario corporations tax. The capital cost allowance claimed by the corporation under the Income Tax Act (Canada) prior to the date the corporation became subject to Ontario tax will be deemed to have been allowed to the corporation for Ontario purposes as of that date. Reserves claimed under the Income Tax Act (Canada) in the previous year will be deemed to have been claimed for Ontario purposes and must be included in income in the first year for which income is reported in Ontario. The balance of undeducted Canadian exploration and development expenses will be deemed to be the sum of such expenses incurred by the corporation less those claimed in previous years under the Income Tax Act (Canada).

These rules are necessary to clarify the position of corporations moving into Ontario now that revisions to regulation section 201(1) permit corporations to claim capital cost allowances in Ontario which differ from those claimed at the federal level. They will be effective for fiscal years ending after December 31, 1976.

*CALCULATION OF INTEREST ON TAX DEFICIENCY OR OVERPAYMENT - (SECTIONS 149(1), 152(3), 153(1))*

Payments made before the date on which the balance of tax for a year is due under section 148(3)(b) will be treated as instalment payments. Payments on or after that date will be treated as final payments. Interest will be charged on any deficiency between the amount payable at a given date and the amount paid at that date. Credit interest will be allowed on overpayments. These calculations will apply to both instalments and final payments.

These changes are made to clarify the application of interest and eliminate a gap in the present provisions. They are effective from the day the bill receives Royal Assent.

*INTEREST ON TAX DEFICIENCIES ARISING FROM A REFUND - (SECTION 149(1))*

Where an amount is refunded to a corporation which has overpaid tax and a subsequent re-assessment increases the tax payable for that year, interest is charged on the difference between the amount due after re-assessment and the amount paid by the corporation after deducting the refund. Credit interest will have been previously allowed on the overpayment up to the date of the refund.

This amendment makes it clear that interest will be charged on all or part of the amount refunded in these circumstances.

*CHANGES TO PARALLEL FEDERAL BILL C-11*

Amendments will be made to adopt the following provisions of Bill C-11 which are not adopted automatically by The Corporations Tax Act.

*PENALTY FOR UNDERSTATING INCOME - (SECTION 149(1))*

Changes will be made which will enlarge and spell out the basis on which a penalty of 25% may be levied for understating income. It will now include (a) excessive deductions as well as (b) unreported gross revenue plus reserves claimed in the previous year and not reported in the current year, less applicable expenses. This change is effective from April 1, 1977.



#### DETERMINATION OF LOSSES - (SECTION 150)

Changes will be made to specify the circumstances in which the Minister will determine a corporation's loss. This will be done only at the request of the corporation and the Minister will issue a notice of determination to which the corporation may object if it wishes. If not objected to, the notice will be binding until there is a re-determination. This change is effective when the bill receives Royal Assent.

#### COMMUNAL ORGANIZATIONS - (SECTION 48a)

A section will be added to make section 143 of the Income Tax Act (Canada) applicable in Ontario as far as it applies to corporations. The income of the group will be treated as the income of an inter vivos trust and if the group is incorporated, the corporation will be treated as trustee. This change will apply to taxation years of corporations ending after December 31, 1976.

#### CANADIAN RESOURCE PROPERTIES

##### PROCEEDS OF SALES - (SECTION 18(2))

No reserve is allowed on proceeds of sale when the corporation has become exempt from income tax, or is a non-resident that has ceased to have a permanent establishment in Canada. This change applies to taxation years ending after December 31, 1976.

##### EXPLORATION AND DEVELOPMENT EXPENSES - (SECTION 20(1) and (2))

A corporation will be required to deduct Canadian exploration and development expenses that it is entitled to claim as a successor or second successor corporation before it can deduct those relating to its own operations. It will also be required to deduct Canadian exploration and development expenses before it can claim the additional deduction available for the part of these expenses which has been incurred in Ontario. This change applies to taxation years ending after May 6, 1974.

#### SASKATCHEWAN NET ROYALTIES

Corporations will *not* be allowed to treat production royalty payments made to Saskatchewan as Canadian exploration and development expenses.

Ontario will *not* follow the amendment in Bill C-11 which will permit such payments to be allowed as exploration and development expenses at the federal level if they are of a type that may be regarded as the cost of acquiring a net royalty petroleum or natural gas lease. Section 66.2(5)(a)(iii) of the Income Tax Act (Canada).

PARTNER'S PROCEEDS OF SALE - (SECTION 27(2a))

Ontario will *not* follow the amendment in Bill C-11 which allows a partner to credit his Canadian development expense account with his share of the proceeds of a sale by the partnership of which he is a member. An amendment will be introduced by section 27(2a) to establish this exception. This section will be effective from December 8, 1977.





Ministry  
of Revenue

Lorne Maeck  
Minister

T.M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Interpretation Bulletin

CARON

Number L-6

August 14, 1978

744 70  
-751

SUBJECT: Management Fees, Rents, Royalties, Rights, etc. -  
Section 14(6)

## INTRODUCTION

Before the major revisions to The Corporations Tax Act by Bill 88, 1977 (see Information Bulletin Number 7-78), section 22(1)(2) of the Act disallowed as a deduction from income 5/12 of certain payments made to a non-resident with whom the corporation was not dealing at arm's length. Bill 88, 1977 introduced section 14(6) to the Act which provided that 5/12 of these payments were to be included directly in income instead of being treated as a disallowed deduction. This new treatment applied to taxation years ending on or after December 8, 1977. The Income Tax Act (Canada) does not contain corresponding provisions. At the federal level these payments are generally subjected to a withholding tax and are fully deductible in computing income.

## CHANGES IN RATE - BILL 68, 1978

Bill 68, 1978 increased the corporate income tax rate to 13% from 12% effective for taxation years ending after March 7, 1978. This made it necessary to change the portion of payments to related non-residents that are included in income from 5/12 to 5/13 effective for taxation years ending after March 7, 1978.

For the taxation year that straddles March 7, 1978 a proration of these payments is required using the following formula; amount included in income equals:

$$\left[ \begin{array}{l} 5 \times \text{Amount of Management} \\ \text{Fee, etc.} \end{array} \right] \text{ DIVIDED BY } \left[ \begin{array}{l} 13 \text{ minus } \frac{\text{No. of days in} \\ \text{taxation year} \\ \text{before} \\ \text{March 8, 1978}}{\text{No. of days in} \\ \text{taxation year}} \end{array} \right]$$

The use of this formula gives the same effect as if 5/12 of the payments were included in income for the period before March 8, 1978 and 5/13 were included for the period after March 7, 1978, without the necessity of computing two taxable incomes for the year.

## *CLASSES OF PAYMENTS*

Payments which must be partially brought into income under these provisions fall into three categories:

- (i) Management or administrative fees or charges,
- (ii) Rents, royalties or similar payments. Examples are:
  - know-how payments for special knowledge, skills or techniques
  - technical fees for the use of confidential technical information
  - payments for the use, in Canada, of any property, invention, trade mark, design or model, plan, secret formula, process, trade name or patent
  - certain payments for information concerning industrial, commercial or scientific experience
  - certain payments for services of an industrial, commercial or scientific character performed by a non-resident person
  - certain payments made to a non-resident to ensure that property or information will not be used by the non-resident or any other person.
- (iii) A right in, or to the use of motion picture film, or films or video tapes for use in connection with television, that have been or are to be used or reproduced in Canada.

## *SCOPE OF INCLUSION IN INCOME*

Amounts in these categories must be included in income when they are paid or payable to non-residents with whom the corporation is not dealing at arm's length. They are included in the income of the same taxation year in which they are subjected to federal withholding tax. Federal withholding tax on such payments is levied under paragraphs 212(1)(a), (d) or (e) or subsection 212(5) of the Income Tax Act (Canada).

## *PAID OR PAYABLE*

Payments to non-residents are considered to be paid or payable when:

- monies in the form of cash, cheque, money order or bank draft have been forwarded to the non-resident
- cash has been deposited in a special bank account in favour of the non-resident and the non-resident can draw upon it at any time, or
- a legal obligation to pay has been incurred and the corporation has disclosed the liability in its books of account and balance sheet.



For this purpose the Branch follows the guidelines outlined in Information Circular No. 72-9, May 12, 1972 published by Revenue Canada.

#### *DIFFERENT TREATMENT*

Under previous section 22(1)(7), the disallowance was made in the same taxation year in which the expense was incurred. Often this resulted in a disallowance in a taxation year although the withholding of federal tax did not take place until a subsequent taxation year.

Under the new section 14(6), the inclusion in income will take place in the same taxation year for which the federal tax is withheld and remitted.

#### *EXCEPTION*

In certain situations an inclusion in income is not required for rents, royalties or similar payments paid to non-resident corporations even though the transaction was not at arm's length and the payments were subjected to federal withholding tax. This will arise when the non-resident corporation, to which the amounts are paid, is itself required to file returns and pay Ontario tax under the provisions of sections 2(2)(b) or 2(3)(b) of the Act.

#### *FILING REQUIREMENTS*

The inclusion in income of 5/13 of these payments to non-residents should be shown on the schedule reconciling net income per books with taxable income for Ontario purposes. The amounts should be added to income in arriving at taxable income.

Copies of federal forms NR4 Summary and Supplemental filed with Revenue Canada in respect of these payments should be attached to the CT 23 return. This will avoid requests for these forms at a later date.







Ministry  
of Revenue

Lorne Maack  
Minister

T.M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Interpretation Bulletin

Number L-5

August 14, 1978

CA 20N  
RU 70  
-I 51

SUBJECT: Carrying Costs of Undeveloped Land

## INCOME TAX

### DEDUCTION FOR INTEREST AND PROPERTY TAXES (SECTION 14(7)(c))

Section 14(7)(c) of The Corporations Tax Act permits a corporation to deduct from income for a taxation year

- interest on borrowed money used to acquire land or on an amount payable for land
- property taxes paid or payable in respect of undeveloped land to a province or a Canadian municipality

if such land is included in the inventory of a business carried on by the corporation.

### FEDERAL LIMITATION - SEE IT-153R

The corresponding federal section 18(2)(c) of the Income Tax Act (Canada) does not permit a deduction for these carrying costs for land held in inventory (applicable to amounts paid or payable after May 6, 1974). These costs are added to inventory under section 10(1.1) of the Income Tax Act (Canada).

### ONTARIO INVENTORY VALUATION

Section 14(2)(a) provides that where carrying costs have been deducted from income, they shall not be included in the value of a corporation's land inventory. In such circumstances, inventories reported for Ontario purposes will differ from inventories reported for federal purposes.

### DEFERRAL OF COSTS

It is not mandatory that a corporation deduct these carrying costs for Ontario purposes. If a corporation wishes to defer them so that it can file on the same basis for both Ontario and Revenue Canada, it may do so. If this is the case, the deferred carrying costs must be added to the cost of the land inventory, the same treatment as for federal purposes.

## *FILING REQUIREMENTS*

Corporations are requested to attach to their Ontario CT23 returns each year a schedule to reflect, on an annual and a cumulative basis

- the difference between the Ontario and federal treatment of carrying costs
- details of costs of land added to inventory and dispositions of land from inventory
- reconciliations between Ontario tax treatment of carrying costs with book treatment as shown in the financial statements.

## *PRIOR YEAR ADJUSTMENTS*

A corporation which has, in prior years, deducted carrying costs from income may wish to bring its Ontario land inventory into line with its federal land inventory. It may do so by forwarding a letter to the Corporations Tax Branch requesting an amendment to prior years returns. However, no more than four prior years will be adjusted to disallow the carrying costs which had previously been written off.

Conversely, a corporation may request by letter for a retroactive deduction of carrying costs which had previously been added to the land inventory. As in the case above, no more than four prior years will be adjusted.

Adjustments to prior years can only be made if the land which is the subject of these carrying costs has not been sold or otherwise disposed of.

## *CAPITAL TAX*

### *CARRYING COSTS INCLUDED IN INVENTORY ON FINANCIAL STATEMENTS*

For book purposes, some corporations may not deduct these carrying costs from income but may, instead, add them to the cost of the asset, land inventory. In these cases it is necessary to make the following adjustments when computing the capital tax payable:

- in calculating paid-up capital, surplus must be reduced by the amount of the carrying costs which relate to land inventory still on hand and which have been deducted from income for Ontario income tax purposes for the current and all previous years.
- in calculating investment allowance, total assets must be reduced by the same amount as above.





Ministry  
of  
Revenue

Lorne Macack  
Minister

T.M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

Number 16-79

October 15, 1979

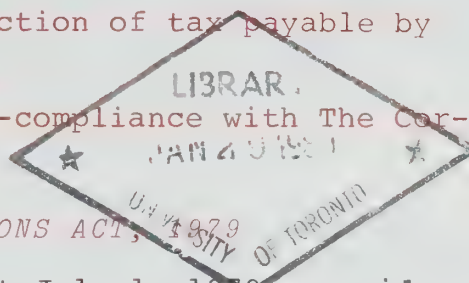
DEPOSITORY LIBRARY MATERIAL

Government  
Publications

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1160

This Bulletin provides information on aspects of:

Small Business Development Corporations  
Ontario Political Contributions  
Availability of information on collection of tax payable by  
non-resident performers  
Sale of Property Under Power of Sale  
Dissolution of a corporation for non-compliance with The Cor-  
porations Tax Act



## SMALL BUSINESS DEVELOPMENT CORPORATIONS ACT

This Act, which took effect July 1, 1979, provides for the establishment of Small Business Development Corporations to provide equity capital and managerial expertise to small businesses in Ontario. These corporations will not be subject to capital tax (section 19 of The Small Business Development Corporations Act).

Incentives for those who invest in new equity shares in a Small Business Development Corporation are substantial. Individual investors receive a *grant* equal to 30% of their investment (section 21). Corporations which invest in Small Business Development Corporations receive a tax *credit* equal to 30% of their investment, which can be applied against Ontario corporate income tax (section 22).

This is a new program to encourage investment in small businesses in Ontario. It replaces the incentives under the former Venture Investment Corporation (VIC) program. Accordingly, all provisions of The Corporations Tax Act relating to VIC's have been repealed effective July 1, 1979.

To qualify for investment, small businesses must meet each of the following conditions:

- be Canadian controlled corporations,
- pay 75% of salaries and wages in respect of operations in Ontario,
- employ no more than 100 full-time employees,
- be involved primarily in mineral exploration and development, tourist activities, or in manufacturing and processing, or other prescribed business activity,
- operate at arm's length of the investing Small Business Development Corporation (section 9).

Further information is available from the Ministry of Revenue's toll-free Information Centre.

In Toronto, dial 965-8470.

In area code 807, ask the Operator for Zenith 8-2000.

All other areas in Ontario, dial 1-800-268-7121.

#### ONTARIO POLITICAL CONTRIBUTIONS

Corporations contributing to the provincial political process have generally ensured that contributions are made to registered political parties, constituency associations and candidates within the limitations provided by section 19 of The Election Finances Reform Act. However, there has been the occasional situation where a corporate contributor, through an oversight, has made contributions to candidates in excess of the \$2,000 aggregate limitation provided by section 19(1)(b)(ii). This contravention could have been avoided had the corporation directed the excess monies instead to a constituency association or to a political party.

For this reason the Commission on Election Contributions and Expenses has requested that corporations be reminded of the provisions of section 19 of The Election Finances Reform Act governing the limitations on contributions as follows:

#### Section 19(1)

Contributions by any person, corporation or trade union to political parties, constituency associations and candidates registered under this Act are limited to those set out in clauses a and b and shall not exceed,

(a) in any year,

(i) \$2,000 to each registered party, and

(ii) \$500 to any registered constituency association but in respect of registered constituency associations of a registered party, an aggregate of \$2,000 to constituency associations of each registered party; and

(b) in any campaign period in addition to contributions authorized under clause a,

(i) \$2,000 in relation to the election in such period to each registered party, and

(ii) \$500 in relation to the election in such period to any registered candidate, but in respect of candidates endorsed by a registered party, an aggregate of \$2,000 to registered candidates of each registered party.

Interpretation Bulletin L-2 of July 4, 1977 sets out these limits in tabular form and provides further information.

Corporations are also requested to note that a contravention of the contribution limitations of The Election Finances Reform Act can occur through the failure to observe that:

- (1) Corporations that are associated with one another under section 256 of the Income Tax Act (Canada) shall be considered as a single corporation for purposes of the Act (section 1(2)).
- (2) Some part of the price paid for a ticket of admission to a fund-raising function sponsored by a registered political party, constituency association or candidate may be considered a contribution (section 24(3)).

Any questions in these matters should be directed to the Commission offices at 151 Bloor Street West, Toronto, Ontario, M7A 1A2, or by telephoning 965-0455.

*AVAILABILITY OF INFORMATION ON TAX PAYABLE BY NON-RESIDENT PERFORMERS - (SECTION 148a)*

Information Bulletin 15-79, of April 10, 1979, notified promoters and other persons making payments to incorporated non-resident entertainers that they should deduct 5% of the payment on account of the non-residents' corporations tax. A more detailed notice on this subject which includes guidelines to promoters when there is doubt whether the non-resident is a corporation, is now available from the Branch and is being distributed to addressees on our list of promoters. Readers of this Bulletin who would like a copy of the detailed notice should make their request to the Corporations Tax Branch, telephone (416) 965-1160.

*SALES UNDER POWER OF SALE AND THE CORPORATIONS TAX ACT, 1972*

Section 30(1) of The Mortgages Act requires that the Ministry of Revenue be served with a Notice of a Power of Sale, in cases where the mortgagee exercising the Power of Sale has received a written notice of a statutory lien under The Corporations Tax Act, 1972. This written notice given by the Corporations Tax Branch just prior to the time the mortgage is registered, specifically states that although there is a statutory lien for taxes, interest and penalties, no priority will be claimed over the particular mortgage provided that it is subsequently registered and the first advance is made within thirty days of the date of the Branch letter. The letter also states that in the event of a foreclosure action or sale under Power of Sale, the Province of Ontario must be joined as a subsequent encumbrancer.

At present, the Ministry of Revenue acknowledges receipt of Notices of a Power of Sale and at the same time requests an accounting of any available surplus. Our past experience has demonstrated that surpluses rarely result from this type of action.

Effective immediately, the Ministry of Revenue will no longer acknowledge receipt of Notices of a Power of Sale. However, the documents are still required to be served on the Ministry, in order to comply with The Mortgages Act. This



change will, of course, in no way affect the Ministry's existing right to an accounting of any surpluses which may in fact arise.

It should be noted that in the rare case where no waiver of priority has been given by the Corporations Tax Branch, the property will be sold subject to any lien that existed at the date the mortgage was registered and this lien will have priority over the mortgage.

#### *CORPORATE DISSOLUTION FOR FAILURE TO FILE CORPORATE CT23 TAX RETURNS OR PAY TAXES, INTEREST AND PENALTIES*

The Corporations Tax Branch, Ministry of Revenue, is charged with the responsibility of administering The Corporations Tax Act, 1972, including the enforcement provisions contained therein. The Branch will continue to enforce compliance with the Act by the use of such measures as prosecutions through the Provincial Court for failure to file tax returns and the issuance of third party demands and warrants of execution for failure of a corporation to pay its taxes, interest and penalties.

Section 251(1) of The Business Corporations Act gives the Minister of Consumer and Commercial Relations the power to order the dissolution of a corporation when he;

- (1) has been notified by the Minister of Revenue that the corporation is in default in complying with the provisions of The Corporations Tax Act, 1972, and;
- (2) has given notice by registered mail to the corporation or by publication once in The Ontario Gazette that such an order will be issued unless the corporation remedies its default within ninety days after the giving of the notice. The Minister of Consumer and Commercial Relations currently gives such notice by publication once in The Ontario Gazette.

Where considered necessary in the circumstances, the Branch will call for the dissolution of a corporation when, after notice has been given, the company fails to remedy its default. Notice in this case takes the form of a Branch letter mailed to the last known address of the company, setting forth the final date, on or before which the company must comply. After this final date, no further notice will be given by the Branch to the corporation before steps are taken to have the company dissolved by the Minister of Consumer and Commercial Relations.

Consequences of dissolution by Ministerial order can be severe, resulting in forfeiture to the Crown of all the company's assets.

#### *INACTIVE CORPORATION AND THE FILING OF AN AFFIDAVIT*

A corporation is considered to be active by the Branch as long as the articles of incorporation remain legally in force. Consequently, tax returns must be filed and capital taxes paid even for a company that has neither taxable income nor assets due to dormancy.

For a corporation of this type that is in default under the provisions of The Corporations Tax Act, 1972, and which does not want to retain its charter or articles of incorporation, the Branch will give consideration to having the corporation dissolved ONLY in the following two situations:

the corporation has;

- (1) never since its inception, acquired and held assets in its own name, has never made a distribution to its shareholders, has always been completely inactive, and has filed an affidavit to this effect with the Branch, or;
- (2) it has no assets at the present time, having lost or disposed of them in normal business activities, is now completely inactive, has not made a distribution to the shareholders in the last two years, and has filed an affidavit to this effect with the Branch.

#### *REVIVAL*

A corporation that has been dissolved for default in complying with the provisions of The Corporations Tax Act, 1972, may be revived, at the discretion of the Minister of Consumer and Commercial Relations, if application for revival is made within two years of the date of dissolution. This application must be accompanied by a consent of the Minister of Revenue to the revival of the corporation. Before this consent is given, all returns due for the period before and subsequent to the dissolution must be filed and all taxes owing must be paid.

Revival of a corporation's charter after the two year period can be accomplished only through a Private Member's Bill. A certificate from the Minister of Revenue, showing that all taxes payable to date under The Corporations Tax Act, have been paid, must be given to the Clerk of the House before the bill can be introduced.

#### *CONSENTS AND CERTIFICATES*

If you have questions concerning the consent to revival or the certificate of taxes paid, mentioned above, contact:

Corporations Tax Branch  
Tax Roll Section  
Queen's Park  
Toronto, Ontario  
M7A 1Y1

Telephone: (416) 965-1004

#### *FURTHER INFORMATION*

See overleaf.

For additional information concerning dissolution of corporations and revivals of charter contact:

Corporations Information Section  
Companies Services Branch  
Ministry of Consumer and Commercial  
Relations  
555 Yonge Street  
Toronto, Ontario  
M7A 2H6

Telephone: (416) 963-0380





Ministry  
of  
Revenue

Lorne Maciek  
Minister

T M Russell  
Deputy Minister

## Corporations Tax Branch

October 15, 1979

CA 20N  
R 470  
- I 52

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1180

### NON-RESIDENT ENTERTAINERS

**SUBJECT: Collection of Tax Payable by Non-Resident Entertainers  
- Section 148a and Regulation 728**

#### INTRODUCTION

Incorporated non-resident entertainers that are deemed to maintain a permanent establishment in the Province under the provisions of section 7(8) of the Act are now subjected to withholding of Ontario corporations tax at source.

#### DEEMED PERMANENT ESTABLISHMENT

Non-resident corporations that produce or present any form of entertainment by means of a performance on a public stage or in an auditorium or other public place in Ontario in a taxation year are deemed to have maintained a permanent establishment in the Province by section 7(8) of the Act.

#### WITHHOLDING

Section 148a of the Act requires persons making payments to such corporations to deduct 5% of those payments on account of the non-resident's Ontario corporations tax instalments payable to the Province. The person making the deductions is also required to forward the amounts withheld to the Branch together with a quarterly report (see below). No legal action can be taken by an entertainer or producer against any person making such a withholding in intended compliance with the Act.

#### NON-COMPLIANCE

Any person making a payment to an incorporated non-resident entertainer or producer who fails to deduct the 5% is liable to pay that amount plus accrued interest for late remittance to the Province. He is then entitled to recover that payment from the non-resident.

A person who withholds but fails to remit the 5% is, in addition, liable for a penalty of 10% of the amount of the withholding or \$10, whichever is greater.

#### EFFECTIVE DATE

The withholding provision applies in respect of all public entertainment performances presented in Ontario on or after May 18, 1979. The first quarterly report and payment of

withholdings to the Province related to the period ended June 30, 1979 and was due on or before August 31, 1979.

The required "Non-Resident Corporation Remittance" report form is available from Tax Roll Unit of the Branch (77 Bloor Street West, Toronto, 12th Floor, Telephone (416) 965-1004). It is reproduced on pages 5 and 6.

#### ASSESSMENT

After the corporate entertainer or producer has filed a CT23 Tax Return with the Branch for the taxation year, the non-resident corporation will be assessed and all amounts forwarded in its name will be applied to its account. Any balance remaining to the corporation's credit will then be refunded.

#### GUIDELINES FOR ONTARIO ENTERTAINMENT PROMOTERS

Promoters should be aware of resident or non-resident status of the entertainers and producers they promote in Canada since they are required to file a "Confirmation of Offer of Employment" form with Employment and Immigration Canada in respect of the latter group.

The following guidelines are provided to assist promoters of entertainment in Ontario to determine whether non-resident entertainers and producers are corporations:

- (a) Does the non-resident individual have a corporation?
- (b) Is the contract signed on behalf of a non-resident corporation?
- (c) Are payments to be made to a non-resident corporation or are payments to be deposited in the account of a non-resident corporation?

Should any of the above questions be answered in the affirmative, it will be necessary to withhold an amount as required under section 148a of the Act.

Should all of the above questions be answered in the negative and should the promoter have no other reason to suspect that the non-resident entertainer or producer may be a corporation, then no withholding under section 148a is required.

Where credible answers to the above questions cannot be obtained or where a person making a payment to a non-resident cannot determine whether the person to whom the payment is being made is a corporation, he should obtain a signed statement from the entertainer, or producer (not his agent) in the form shown below. If he cannot obtain the certification, he should withhold tax.

- Signed Certification to be obtained from the non-resident individual

**"TO WHOM IT MAY CONCERN**

I, \_\_\_\_\_, certify that I do not control directly, or indirectly, any corporation which presents or produces any form of entertainment on a public stage within or outside Canada; and the proceeds earned from the attached entertainment contract flow only to me and no corporation has any interest in these proceeds other than as agent."

\_\_\_\_\_  
SIGNATURE

The statement should be forwarded with a copy of the contract to this Branch to the attention of the Audit Section. No withholding is required when this certificate is obtained.

- **Caution**

Before signing the statement the entertainer must be made aware of the implications of false statements under the provisions of section 146(3) of The Corporations Tax Act, 1972, which read in part as follows:

"(3) Every person who has,

- (a) made, or participated in, assented to or acquiesced in the making of, false or deceptive statements in a return, certificate, statement or answer delivered or made as required by or under this Act or the regulations;
- (b) -
- (c) -
- (d) wilfully in any manner evaded or attempted to evade compliance with this Act or payment of taxes imposed by this Act; or
- (e) conspired with any person to commit an offence described by clause a to d,

is guilty of an offence and, in addition to any penalty otherwise provided by this Act, is liable on summary conviction to a fine of not less than \$25 and not more than \$10,000 plus, in an appropriate case, an amount of not more than double the amount of the tax



that should have been shown to be payable or that was sought to be evaded, or to imprisonment for a term of not more than two years, or to both fine and imprisonment."

#### *CORPORATIONS NOT AFFECTED*

It should be emphasized that these withholding provisions apply only to incorporated non-resident entertainers or producers that are deemed to maintain an Ontario permanent establishment by virtue of section 7(8) of the Act. Although an admission fee need not be charged, there must be a live, public performance in the Province for this provision to apply. Non-resident corporations involved in the production of feature films or videotaped television commercials, for example, are not subjected to withholding since their public performances are on film or tape rather than being live. On the other hand, a non-resident corporation providing entertainment to patrons of a public restaurant would be subjected to withholding, even if no cover-charge applied.

#### *REFUNDS*

• Persons on whose behalf withholdings have been remitted to the Province who were not liable and are not otherwise liable or are not about to become liable to pay Ontario corporations tax may obtain a refund by applying to the Branch in writing within two years from the end of the calendar year in which the amounts were remitted.



Ministry of Revenue  
Corporations Tax  
Revenue Branch

Queen's Park  
Toronto, Ontario  
M7A 1Y1

Ontario

# Non-Resident Corporation Remittance

See instructions on reverse

Name and Address of Person Remitting Payment

-----

Covering The Period

From	To
Page	of

Name of Non-Resident Corporation	Mailing Address	Ontario Corporations Tax Account Number	Taxation Year-End	Period of Performances	Total Payment	Amount Withheld
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----

Declaration: I certify that this report has been examined by me, is a true, correct and complete report and that the information is in accordance with the books of the company.	
Signature of Authorized Person	Date

Total	\$	\$
Total Amount Remitted	\$	\$

## Guidelines

1. **REQUIREMENTS** - Any person making a payment to a non-resident corporation as consideration for the production or presentation of any form of entertainment is required by Section 148a to withhold 5% of the payment and remit the amount to the Treasurer of Ontario on behalf of the non-resident corporation's taxes payable under The Corporations Tax Act, 1972.
2. **NON-RESIDENT CORPORATION** - A corporation incorporated under the laws of a jurisdiction outside Canada.
3. **WHETHER THE NON-RESIDENT IS A CORPORATION** - In determining whether a non-resident is a corporation the following guidelines should be used:
  - (a) Does the non-resident individual have a corporation;
  - (b) Is the contract signed on behalf of a non-resident corporation;
  - (c) Are payments to be made to a non-resident corporation or are payments to be deposited in the account of a non-resident corporation;
  - (d) Where a person making a payment to a non-resident cannot determine whether the person to whom the payment is being made is a non-resident corporation, he should require the person receiving the payment to affirm in writing that the payment is not being made to a non-resident corporation.
4. **ENTERTAINMENT** - For the purpose of Section 7 (8) of The Corporations Tax Act, 1972, entertainment is interpreted as a live performance, such as singing, dancing, etc., presented on a public stage for which there is an admission charge.
5. **FILING** - The report together with the amount withheld is to be filed with the Corporations Tax Branch, Queen's Park, Toronto, Ontario M7A 1Y1 within two months of the end of each calendar year quarter.
6. **LOSS** - Where a non-resident corporation will not have any taxable income from its performance(s) in Ontario, it should submit, prior to its performance(s) in Ontario, to the Corporations Tax Branch a statement of its estimated revenues and expenses. If this statement is acceptable to the Corporations Tax Branch, a letter will be issued to the person if it is required to withhold the 5% amount informing them that no amount or that a lesser amount should be withheld.
7. **No action lies against any person, by the non-resident corporation, for deducting or withholding any sum of money in compliance or intended compliance with Section 148a.**

**NOTE:** These guidelines are by no means exhaustive and due care should be exercised in each case.

## Instructions for Completion

1. **NAME AND ADDRESS OF PERSON REMITTING PAYMENT** - Indicate the complete name and address of the person or corporation that has withheld and is remitting the required amount.
2. **COVERING THE PERIOD** - The report is to be filed for three-month periods commencing on the first day of January, April, July and October and ending on the last day of March, June, September and December, respectively.
3. **PAGE OF** - If more than one page of the report is required, indicate each page number and the total number of pages.
4. **NAME OF NON-RESIDENT CORPORATION** - Indicate the complete name of the non-resident corporation for which the amount is being remitted.
5. **MAILING ADDRESS** - The complete mailing address of the non-resident corporation.
6. **ONTARIO CORPORATION TAX ACCOUNT NUMBER** - Indicate the non-resident corporation's account number if available.
7. **TAXATION YEAR/END** - Indicate the taxation year and of the non-resident corporation.
8. **PERIOD OF PERFORMANCE** - The details of the performance(s) presented or produced by the non-resident corporation.
9. **TOTAL PAYMENT** - The total amount of the payment(s) made to the non-resident corporation in Canadian dollars.
10. **AMOUNT WITHHELD** - 5% of the total payment made to the non-resident corporation in Canadian dollars.
11. **TOTAL** - The totals of the Total Payment and the Amount Withheld for each page submitted.
12. **TOTAL AMOUNT REMITTED** - The total of the amounts remitted on behalf of the non-resident corporations. Complete only on the last page of the report if more than one page.
13. **SIGNATURE OF AUTHORIZED PERSON AND DATE** - The signature of the person that is making the remittance.





Ministry  
of  
Revenue

Lorne Maeck  
Minister

T. M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

Number 15-79

April 10, 1979

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1160

## ONTARIO BUDGET 1979

This Bulletin is the second of two summarizing the major changes affecting *The Corporations Tax Act*, proposed by the Treasurer of Ontario in the 1979 Budget released on April 10, 1979.

### CHANGES IN THE ADMINISTRATION OF THE ACT

#### APPLICATION OF WAIVERS FILED FOR FEDERAL PURPOSES - (SECTION 150(4)(b)(iv.1))

Where a corporation has filed a waiver with Revenue Canada under subsection 152(4) of the Income Tax Act (Canada) that waiver will be valid for Ontario purposes also. Once a federal waiver has been filed in respect of a taxation year, that waiver will automatically apply for Ontario purposes and it will not be necessary for the corporation to file an Ontario waiver.

This change will apply to waivers filed after the day the Bill receives Royal Assent.

#### COLLECTION OF TAX PAYABLE BY NON-RESIDENT PERFORMERS - (SECTION 148a)

Canadian promoters and other persons making payments to incorporated non-resident entertainers will be required to deduct 5% of the payment on account of the non-resident's Ontario corporations tax.

Non-Canadian entertainers who operate through a foreign corporation and perform in Ontario are liable for Ontario corporations tax. This applies even if there is only one performance in a year. The change in the law will require Canadian promoters or other persons making payments to incorporated non-Canadian entertainers to deduct 5% of the payments, on account of the entertainers' tax instalments payable to the Province. The person making the deductions will also be required to forward the amounts deducted to the Corporations Tax Branch together with a report giving the names of the entertainers and other relevant information.

After the entertainer has filed a CT23 tax return with the Branch for the taxation year and has been assessed, all amounts forwarded in its name will be applied to the tax assessed for the year. Any balance remaining to the entertainer's credit will then be refunded.

Any person making a payment to an incorporated non-Canadian entertainer who fails to deduct the 5%, will be required to pay that amount to the Province. He will then be entitled to claim that amount from the entertainer. Copies of the report to be filed by persons making payments will be obtainable from the Corporations Tax Branch in due course.

This change will apply to performances presented after the day the Bill receives Royal Assent.

*CHANGES AFFECTING THE COMPUTATION OF PAID-UP CAPITAL AND  
INVESTMENT ALLOWANCE*

*CAPITAL GAINS AND RESOURCE PROPERTY RESERVES TO BE INCLUDED IN  
PAID-UP CAPITAL - (SECTION 126(1)(c))*

A corporation will no longer be allowed to exclude from its computation of paid-up capital any reserve in respect of a capital gain deducted in the year under section 40(1)(a)(iii) of the Income Tax Act (Canada) as adopted by section 15 of The Corporations Tax Act. Similarly, a corporation will not be allowed to exclude any reserve deducted under section 18 in respect of proceeds from the sale of a resource property or an amount receivable in respect of exploration and development expenses incurred.

This change will apply to taxation years ending after April 10, 1979.

*NO INVESTMENT ALLOWANCE ON LOANS TO RELATED NON-RESIDENTS  
- (SECTION 127(1)(c))*

Any loan or advance made to a corporation which has its head office outside Canada and to which the lending corporation is related, will not qualify for the investment allowance. The present provision only disqualifies loans or advances to a parent with its head office outside Canada. The investment allowance is deducted from paid-up capital in computing taxable paid-up capital.

This change will apply to taxation years ending after April 10, 1979.

*RULES FOR TAXPAYERS INVESTING IN LIMITED PARTNERSHIPS*

A corporation investing in an unincorporated joint venture or partnership must reflect the accounts of that partnership in its capital tax computations (see Interpretation Bulletin L-7).

Similar rules will now be applied for taxpayers investing in limited partnerships. Each corporate general and limited partner must now include in computing paid-up capital its share of those limited partnership liabilities and other amounts that would be components of the paid-up capital of a corporation. Partners' shares

are to be determined by reference to the profit sharing ratios of the limited partnership except that a corporate partner shall report, in addition to its own share, the shares of non-corporate partners of the limited partnership who are its shareholders or are related to its shareholders. Previously, the liabilities of a limited partnership were attributed completely to its general partners.

These new rules are effective for assessments after April 10, 1979.

#### EXAMPLE

##### Limited Partnership Balance Sheet As at April 30, 1979

Land	\$500,000	Mortgage payable	\$400,000
Partners' Accounts and Profit Sharing Ratios			
		Corporate general partner A - 60%	80,000
		Corporate limited partner B - 20%	5,000
		Individual limited partner C - 10% (shareholder of A)	5,000
		Individual limited partner D - 10%	10,000
	<hr/>		<hr/>
	\$500,000		\$500,000
	<hr/>		<hr/>

Under the new rules A will include in its paid-up capital C's 10% portion of the mortgage payable in addition to its own 60% portion, a total of 70% - \$280,000. B will include its 20% portion of the mortgage payable, - \$80,000. Under the previous rules A would have included the entire mortgage payable - \$400,000.

#### FEDERAL CHANGES

##### RESEARCH AND DEVELOPMENT INCENTIVE

Ontario is tied-in with the federal change to encourage increased research and development activity included in the federal Budget of April 10, 1978 (section 37.1 of the Income Tax Act (Canada)). For taxation years ending after 1977 and before 1989, corporations can make an additional deduction of 50% of the increase in their research and development expenditures over the average for the preceeding three years. In the transitional period the average is to be based on years ending after 1976.

The deduction for the 1978 taxation year should be pro-rated based on the days in the taxation year after 1977.

##### C.C.A. ON RAILWAY ASSETS

It was proposed in the April 10, 1978 federal Budget to allow an additional straight-line capital cost allowance of 6% on



all railway system assets acquired after April 10, 1978 and before 1983. This additional allowance would be available in the year of the investment and in each of the four subsequent years.

Ontario is tied-in with the federal capital cost allowance classes and rates as they apply to railway assets. When the federal regulations implementing this proposal are published, they will automatically apply for Ontario purposes also.

#### *OIL AND GAS DEPLETION*

The federal April 10, 1978 Budget also proposed to permit corporations a depletion allowance of 50% of their expenditures on machinery, equipment and other facilities used in "enhanced recovery" and "tertiary recovery" systems that use advanced technology to recover additional oil from conventional wells or heavy oil fields. The deduction is to be limited to 50% of taxable income.

Ontario intends to parallel this change when the federal regulations are published.

#### *INCENTIVE TO SMALL BUSINESS INVESTORS*

Federal Bill C-59/78 introduced changes intended to aid investors in small businesses. Any allowable capital loss (i.e.  $\frac{1}{2}$  of the actual loss) on the disposition of shares or debt of a Canadian-controlled private corporation is treated as an "allowable business investment loss". This loss can be deducted from income from any source and any undeducted portion is treated as a non-capital loss which can be carried back one year and forward five years.

The changes apply to 1978 and subsequent taxation years. They apply for Ontario purposes through the tie-in with the federal provisions.

#### *EMPLOYMENT TAX CREDIT*

Federal Bill C-23 implemented the federal Employment Tax Credit Program. This program allows employers to deduct from their federal tax payable up to \$2 per hour for each new employee hired through Canada Manpower and designated to be under the program.

Any credit claimed under this program is taxable and should be included in income for federal and Ontario purposes by virtue of paragraph 12(1)(q) of the Income Tax Act (Canada).

No deduction from Ontario tax is allowed under the program.

#### *ONTARIO FOREIGN TAX CREDIT - (SECTION 35)*

Foreign taxes paid on foreign non-business income became deductible from income for Ontario purposes for 1978 and subsequent taxation years. This change came into effect through Ontario's

tie-in with subsection 20(12) of the Income Tax Act (Canada) which was amended by federal Bill C-56. A corporation therefore has the option of deducting the foreign non-business income tax from income or claiming a tax credit in respect of it.

As a result of the Ontario tie-in with the federal amendment a change will be made to the Ontario foreign tax credit provision. A corporation will be able to claim an Ontario foreign tax credit on foreign non-business income only to the extent that the foreign tax has not been claimed as a deduction from income for Ontario or federal purposes. Consequently, where a deduction has been made, it should be deducted from the foreign tax when determining the deficiency to be claimed as Ontario foreign tax credit.

No deduction from income and no Ontario foreign tax credit is allowed in respect of taxes on foreign business income.

#### EXAMPLE

##### CALCULATION OF ONTARIO FOREIGN TAX CREDIT

Foreign non-business income	\$20,000
Foreign taxes paid	3,000
Deduction claimed for federal purposes	2,000
Deduction claimed for Ontario purposes	2,000
Federal foreign tax credit allowed	800

##### Calculation of Ontario Foreign Tax Credit

Ontario F.T.C. is lesser of:

A. 14% of \$20,000 \$2,800

Foreign taxes paid 3,000

Less: Deduction from income 2,000

1,000

Less: Federal F.T.C. 800

B. Deficiency 200

200

Ontario Foreign Tax Credit is lesser of A. and B. = \$200







Ministry  
of  
Revenue

Lorne Macack  
Minister

T. M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

Number 14-79

April 10, 1979

Government  
Publications

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1160

## ONTARIO BUDGET 1979

This Bulletin is the first of two summarizing major changes affecting *The Corporations Tax Act*, proposed by the Treasurer of Ontario in the 1979 Budget released on April 10, 1979.

### HIGHLIGHTS

#### • INCOME TAX

- INCREASE IN INCOME TAX RATE FROM 13% TO 14%.
- 13% RATE WILL BE CONTINUED FOR MANUFACTURING AND PROCESSING PROFITS AND PROFITS FROM FARMING, FISHING, MINING AND LOGGING.
- INCOME TAX RATE FOR SMALL BUSINESS REMAINS AT 10%.

#### • CAPITAL TAX

- REDUCTIONS FOR MANY CORPORATIONS WITH TAXABLE CAPITAL LESS THAN \$300,000 AND "LOSS CORPORATIONS" WITH TAXABLE CAPITAL LESS THAN \$1,000,000.
- INCREASE IN CAPITAL TAX RATE FOR BANKS FROM 3/5 OF 1% TO 4/5 OF 1%.

### OTHER ITEMS (BULLETIN NUMBER 15-79)

#### • ADMINISTRATIVE CHANGES:

- WAIVERS FILED WITH REVENUE CANADA TO BE VALID FOR ONTARIO PURPOSES.
- CANADIAN ENTERTAINMENT PROMOTERS TO BE RESPONSIBLE FOR COLLECTING CORPORATIONS TAX FROM INCORPORATED NON-RESIDENT PERFORMERS.

• PAID-UP CAPITAL AND INVESTMENT ALLOWANCE COMPUTATION CLARIFIED:

- RESERVES IN RESPECT OF CAPITAL GAINS AND RESOURCE PROPERTY DISPOSALS ARE INCLUDED IN PAID-UP CAPITAL.
- LOANS TO RELATED NON-RESIDENT CORPORATIONS NOT ELIGIBLE FOR INVESTMENT ALLOWANCE.
- LIMITED PARTNERSHIP PAID-UP CAPITAL TO BE ALLOCATED AMONG BOTH LIMITED AND GENERAL PARTNERS.
- TREATMENT OF THE FOLLOWING RECENT FEDERAL CHANGES:
  - 50% OF INCREASES IN THE LEVEL OF RESEARCH AND DEVELOPMENT EXPENDITURES CAN BE DEDUCTED IN COMPUTING INCOME.
  - RAILWAY ASSETS ARE ELIGIBLE FOR AN ADDITIONAL 6% CAPITAL COST ALLOWANCE.
  - OIL AND GAS DEPLETION RATE FOR ENHANCED RECOVERY SYSTEMS IS INCREASED FROM 33⅓% TO 50%. THE LIMIT IS RAISED TO 50% OF TAXABLE INCOME FROM 25% OF RESOURCE PROFITS.
  - ALLOWABLE BUSINESS INVESTMENT LOSSES AND OTHER SMALL BUSINESS RELIEF CHANGES WILL ALSO APPLY FOR ONTARIO PURPOSES.
  - EMPLOYMENT TAX CREDIT NOT ALLOWED.
  - FOREIGN TAXES ON FOREIGN INVESTMENT INCOME CAN BE DEDUCTED AS AN EXPENSE BY A CORPORATION NOT ABLE TO CLAIM A CREDIT IN RESPECT OF THEM.

*CORPORATION INCOME TAX RATE INCREASE - (SECTION 33)*

The rate of tax payable by a corporation upon its taxable income will be increased from 13% to 14%.

*MANUFACTURING AND PROCESSING CREDIT - (SECTION 36a)*

In order to continue the 13% rate of tax payable in respect of manufacturing and processing income, a 1% tax credit will be provided. The proportion of income qualifying for this treatment is to be determined by applying the rules of section 125.1 of the Income Tax Act (Canada) to Ontario amounts. In addition farming, fishing, mining and logging activities will also qualify for the Ontario credit.

*SMALL BUSINESS INCENTIVES - (SECTION 36)*

In order to retain the current effective 10% tax rate on small business income, the current 3% Ontario small business tax credit will be increased to 4% of the Ontario portion of income eligible for the federal small business deduction.

## CHANGES RELATING TO RATE INCREASE

As a result of the change in the tax rate, a number of other changes will be made in the Act:

### MANAGEMENT FEES AND LIKE PAYMENTS TO A NON-RESIDENT - (SECTION 14(6))

The fraction used to calculate the amount to be added back to income in respect of management fees, rents, royalties, rights or similar payments to a non-resident person with whom a corporation was not dealing at arm's length is now changed from  $5/13$  to  $5/14$ .

### MUTUAL FUND CORPORATIONS - (SECTION 41)

The percentages and fractions stated in section 41 which are used in calculating the refundable capital gains tax of a mutual fund corporation and are based on the relevant income tax rate will also be changed:  $6\frac{1}{2}\%$  will be changed to  $7\%$  (section 41(2));  $13\%$  will be changed to  $14\%$  (section 41(5)); and  $15 \frac{5}{13}$  times will be changed to  $14 \frac{2}{7}$  times (section 41(4)).

### ONTARIO FOREIGN TAX CREDIT - (SECTION 35)

The upper limit for the Ontario foreign tax credit that may be claimed will be increased from  $13\%$  to  $14\%$  of foreign investment income allocated to Ontario.

### EFFECTIVE DATES

All of the foregoing changes will be effective April 11, 1979 and will apply to taxation years ending after April 10, 1979. For taxation years that straddle April 10, 1979 the amount calculated on the old basis should be prorated for the days before April 11, 1979 and the amount calculated on the new basis for the days after April 10, 1979.

## CHANGES AFFECTING THE COMPUTATION OF CAPITAL TAX

### REDUCED CAPITAL TAX FOR SMALL BUSINESSES - (SECTION 133a)

Corporations with taxable paid-up capital (before allocation to Ontario) up to \$100,000 will pay a flat \$50 capital tax. Those with taxable paid-up capital over \$100,000 and up to \$200,000 will pay the lesser of tax otherwise payable and \$100. Those with taxable paid-up capital over \$200,000 and up to \$300,000 will pay the lesser of tax otherwise payable and the amount calculated as follows:

0.3% of taxable paid-up capital minus

0.5% of (\$300,000 less taxable paid-up capital)

Note that all of the above calculations use taxable paid-up capital before allocation to Ontario. Present rules apply to taxable paid-up capital used in Ontario and allow reduced rates only for ranges to \$50,000 and \$100,000 respectively.



## REDUCED CAPITAL TAX FOR LOSS CORPORATIONS - (SECTION 133a)

Corporations with taxable paid-up capital (before allocation to Ontario) not exceeding \$1,000,000 and having no profit for the year (as re-calculated for this purpose) will pay a flat \$100 capital tax, instead of the full capital tax otherwise calculated. In determining whether a corporation has no profit for the purpose of this special treatment, the non-capital loss reported for the year will be reduced by any amount that has been deducted in respect of any donation, capital cost allowance, terminal loss, resource allowance, inventory allowance, depletion allowance, eligible capital expenditure, intercorporate dividend or other years' losses.

Corporations With:	Will Pay the Lesser of the Tax Otherwise Payable, and:	Instead of:
Taxable paid-up capital (before allocation) not exceeding \$100,000	\$50	Up to \$300
Taxable paid-up capital over \$100,000 but not exceeding \$200,000	\$100	Up to \$600
Taxable paid-up capital over \$200,000 but not exceeding \$300,000	$\frac{3}{10}$ of 1% of taxable paid-up capital less $\frac{1}{2}$ of 1% of (\$300,000 minus taxable paid-up capital)	Up to \$900
Taxable paid-up capital not exceeding \$1,000,000 <u>and</u> No profit for the year, as re-calculated for this purpose	\$100	Up to \$3,000

## CAPITAL TAX RATE INCREASE FOR BANKS - (SECTION 131(2) and 131(3))

The rate of capital tax payable by a bank will be increased from  $\frac{3}{5}$  of 1% to  $\frac{4}{5}$  of 1%. The rate of capital tax payable by corporations registered to carry on business under The Loan and Trust Corporations Act will remain unchanged at  $\frac{3}{5}$  of 1%.

## PRORATION

These new capital tax rates will be effective April 11, 1979 and will apply to taxation years ending after April 10, 1979. For taxation years which include April 10, 1979 the change in tax should be prorated based on the number of days in the taxation year before and after that date.



Ontario

Ministry  
of  
Revenue

Lorne Maack  
Minister

T.M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

CA 28N

R470

-I52

December 3, 1979

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1160

SUBJECT: Repeal of Statutory Lien (section 167)

## SUMMARY

The statutory lien for taxes, interest, penalties and other amounts owing under The Corporations Tax Act has been repealed. A lien no longer exists automatically on property of a corporation for amounts owing under the Act. Where a lien against real property was claimed by this Ministry the statutory lien continues to be effective up to January 31, 1980.

A lien which has been registered will not be affected by this change to the legislation and will continue in force. In future where the Ministry claims a lien it will be registered in a land registry office. The lien will be registered against real property or an interest in real property. Interest in property includes a leasehold interest.

Requests for lien clearances relating to property sales and mortgages will no longer be necessary and the Corporations Tax Branch will not issue them after January 31, 1980.

## STATUTORY LIEN REPEALED

In accordance with its policy of de-regulation, the Ontario government has repealed the statutory lien provided under section 167 of The Corporations Tax Act. This first lien and charge applied automatically to all property owned by a corporation in respect of amounts owing under the Act. The removal of the statutory lien is the last in a series of moves to remove all such liens from tax statutes administered by the Ministry of Revenue. It is a significant de-regulation and simplification measure which will facilitate real estate transactions in Ontario by removing entirely the need to request a lien clearance from the Branch when purchasing land that has been owned by a corporation. If the Ministry has a lien after January 31, 1980 it will be registered in the proper land registry office.

## EFFECTIVE DATE

The repeal is effective November 30, 1979, the date Bill 165 received Royal Assent. The first lien and charge under the Act does not apply to any property after that date. Where the Ministry has taken proceedings with respect to a statutory lien upon real property, the lien continues to be effective up

to January 31, 1980. Where such lien is registered in the proper land registry office prior to January 31, 1980, the Ministry's priority for amounts owing under the Act will continue to apply after January 31, 1980.

#### *REPLACED BY REGISTERED LIEN*

The statutory lien is replaced by a registered lien on real property. The Ministry will be able to register in the land registry office a notice claiming a first lien and charge upon real property of a corporation in Ontario. This registered lien will be in respect of amounts owing under the Act or that subsequently become owing by the corporation. It will have priority over all encumbrances or claims subsequently registered against the real property.

#### *PROPERTY NOT REGISTERED IN THE CORPORATION'S NAME*

Where a corporation has an interest, including a leasehold interest, in real property and the property is not registered in its name in the land registry office, a lien can be registered against that property in respect of that interest. The registered notice claiming the lien will state the nature of the interest and a copy of the notice will be sent to the registered owner at the address to which the last property assessment notice was sent. A lien registered in respect of an interest in real property will apply in the same manner as a lien registered upon real property.

#### *LIEN CLEARANCES NO LONGER NECESSARY*

These changes will make it unnecessary for lawyers and other persons representing clients in purchase and mortgage transactions to request lien clearances from the Corporations Tax Branch. They will be obliged only to ensure that no lien has been registered against the property in the land registry office.

The Corporations Tax Branch will cease issuing lien clearance letters on January 31, 1980. Nor will the Branch indicate whether a lien has been registered. Such information can be obtained from records in the land registry office.

#### *FURTHER INFORMATION*

If you have any questions concerning liens under The Corporations Tax Act these may be directed to:

Liens Section  
Corporations Tax Branch  
Ministry of Revenue  
Queen's Park  
Toronto, Ontario M7A 1Y1

Telephone: (416) 965-2936

The location is: 77 Bloor Street West (12th Floor)





Ministry  
of Revenue

Lorne Maeck  
Minister

T.M. Russell  
Deputy Minister

## Corporations Tax Branch

# Information Bulletin

CA20N  
RU70

April, 1980

- I52

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1180

SUBJECT: Condominium and Co-operative Housing Corporations

### SUMMARY

Condominium corporations are liable for Ontario corporations tax only if they have been subjected to federal income tax in the year or in any previous year. Condominium corporations that have never been subjected to federal income tax are not required to file CT23 returns with the Province.

The same rules apply to co-operative housing corporations with share capital, and for taxation years ending after December 7, 1977, to co-operative housing corporations without share capital.

These rules do not apply to other types of co-operative corporations which may or may not be tax-exempt depending upon the purposes of their incorporation and operations and whether they have distributed income or appropriated property for the benefit of members or shareholders.

### INTRODUCTION

Co-operative housing companies are incorporated under the Ontario Co-operative Corporations Act (which superseded Part V of the Ontario Corporations Act) and may or may not have share capital. Condominium companies are incorporated without share capital under the Ontario Condominium Act. Both types of corporation are similar in that they provide private residential housing to members and shareholders. The main differences between them relate to whether it is the member or the corporation that owns the property.

### BACKGROUND

For taxation years ending prior to December 8, 1977, non-share capital corporations were not liable for Ontario corporations tax. Moreover, for taxation years ending after June 13, 1973, share capital co-operative housing corporations whose investment income did not exceed Ministry guidelines qualified as non-profit organizations under section 49(1)(b) (formerly section 122(1)(i)) of the Act and were therefore only liable for \$5 tax.

For taxation years ending after December 7, 1977, similar treatment was extended to non-share capital condominium and co-operative housing corporations. Since the special \$5 tax had been repealed, these corporations were not required to pay tax or to file returns as long as their investment income did not exceed the least of:

- \$50 per suite;
- \$50 per member or shareholder; and
- \$2,000.

These Ministry guidelines are now being superseded by a new less-restrictive set of guidelines for tax exemption of condominium and co-operative housing corporations.

#### *FEDERAL POSITION*

On July 30, 1979 Revenue Canada issued Information Circular No. 79-7 setting out its treatment of condominium corporations and their members. Revenue Canada's view is that such corporations do not qualify as exempt non-profit organizations for federal purposes.

However, certain profits earned by these corporations are to be excluded from their income for federal tax purposes; specifically:

- interest earned on operating or reserve funds if such funds are not maintained at an unreasonably high level;
- profits from rentals to non-members if substantially all gross revenue (other than interest and assessments) is derived from dealings with members;
- profits from dealings with members; and
- rental income derived from non-members which has been allocated to members.

Accordingly, although they are required to file federal T2 returns, many condominium corporations will not pay federal income tax.

#### *ONTARIO POSITION*

This federal treatment is also applicable for Ontario purposes, both in computing income and in determining whether a previously exempt corporation should be subject to Ontario corporate taxes.

Condominium corporations subjected to federal income tax in the year lose their exempt non-profit organization status and become subject to Ontario corporate income tax and capital tax for that year and for all subsequent years.

A condominium corporation's income tax base is calculated according to Ontario policy in conjunction with the rules set out in federal Information Circular No. 79-7. Its capital tax base is computed in the ordinary manner and includes all operating and reserve funds, even those not considered to be maintained at an unreasonably high level for income tax purposes.

Condominium corporations that are not subject to Ontario corporate income tax or capital tax under these provincial guidelines are considered to be exempt non-profit organizations for Ontario purposes and are not required to pay these taxes or to file CT23 returns. This same policy applies to co-operative housing corporations.

In calculating the capital tax base of such corporations, liabilities secured on property held in trust by the corporation for members and shareholders should be excluded from paid-up capital.

#### *APPLICATION*

These new Ontario guidelines are applicable to taxation years ending after December 7, 1977.

#### *MONITORING*

Like other exempt corporations, condominiums and co-operative housing corporations not required to file CT23 returns will continue to be monitored to allow the Ministry to re-evaluate their Ontario corporate tax status.

#### *FURTHER INFORMATION*

Any questions you may have should be directed to:

Tax Specialist Section  
Corporations Tax Branch  
Ministry of Revenue  
Queen's Park  
Toronto, Ontario  
M7A 1Y1

Telephone: (416) 965-4040

Location: 77 Bloor Street West  
(12th Floor)  
Toronto







Ministry  
of  
Revenue

Lorne Maeck  
Minister

T. M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

Number 17 - 80

April 22, 1980

DEPOSITORY LIBRARY MATERIAL

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1160

## ONTARIO BUDGET 1980

This Bulletin is the first of two summarizing changes affecting *The Corporations Tax Act*, proposed by the Treasurer of Ontario in the 1980 Budget released on April 22, 1980. Bulletin 18-80 summarizes administrative and other items.

### HIGHLIGHTS

- **INCOME TAX**
  - Small Business Tax Credit on up to 20% of depreciable assets purchased.
  - 10% rate for non-qualifying business (professional and personal service).
  - Repeal of provisions for carrying on business by non-residents.
  - Fast write-off extended for pollution control and energy efficient equipment.
- **CAPITAL TAX**
  - Reductions for taxable capital less than \$1.2 million.
  - Investment allowance for loans to related non-residents.
  - \$50 tax for family fishing corporations.

### INCOME TAX CHANGES

#### SMALL BUSINESS TAX CREDIT - section 36b

Canadian controlled private corporations qualifying for the small business deduction under section 125(1) of the Income Tax Act (Canada) will be eligible for a credit against Ontario income tax up to 20% of the capital cost of new or used depreciable assets. The assets must be purchased at arm's length after April 22, 1980 and before April 23, 1982 and must be put into use in Ontario by the corporation. Lease or rental to or from other parties will not count as use of the asset for this purpose. The guidelines set out in the Revenue Canada Interpretation Bulletin IT-50R will be used to determine the date of purchase.

In a full fiscal year the credit will be limited to the lesser of (A) Ontario income tax payable and (B) the greater of \$500 and 20% of the Ontario income tax on profits eligible for the federal deduction under section 125(1). There will be no carry forward or carry back of unused credits.

#### PRORATION

For taxation years which include April 22, 1980 both the total Ontario income tax and the Ontario income tax on eligible income will be reduced by the proportion of days in the taxation year before April 23, 1980. A corresponding proration will apply to short taxation years and to years which straddle April 22, 1982. In any of these years the credit available will be limited to the lesser of A and B, where A equals the Ontario income tax after proration and B equals the greater of \$500 and 20% of the Ontario income tax on eligible income after proration.

<u>Example</u>	<u>Corp. X</u>	<u>Corp. Y</u>	<u>Corp. Z</u>
Year End	Dec. 31/80	Dec. 31/80	Dec. 31/80
Ontario taxable income (all eligible for small business deduction)	20,000	60,000	4,000
Assets purchased after April 22, 1980	10,000	100,000	8,000
Small Business Credit is the least of:			
A. Ontario Income Tax 10%	2,000	6,000	400
Proration 253/366 of tax	1,383	4,148	277
B. The greater of			
(i) 500	$\frac{X}{500}$	$\frac{Y}{500}$	$\frac{Z}{500}$
(ii) 20% of Ont. Income Tax on eligible income	400	1200	80
Proration 253/366	277	830	56
C. 20% of assets purchased	2,000	20,000	1,600
Credit available is	500	830	277

#### TAX RATE FOR NON-QUALIFYING BUSINESS INCOME - section 36

The 4% Ontario small business incentive tax credit currently allowed on small business profits eligible for the small



business deduction in subsection 125(1) of the Income Tax Act (Canada) will be allowed also on non-qualifying business profits eligible for the deduction in subsection 125(1.1).

The effective Ontario income tax rate on such income of professional, personal service and management corporations will therefore be 10%. For corporations in existence on October 23, 1979 this will apply to their taxation years commencing after December 31, 1979, for other corporations it will apply to their taxation years commencing after October 23, 1979.

*LIABILITY OF NON-RESIDENTS WITH NO PERMANENT ESTABLISHMENT IN ONTARIO - section 2(2)(d) and section 2(3)(d)*

Sections 2(2)(d) and 2(3)(d) of the Act extended the liability for income tax to corporations incorporated in a jurisdiction outside Canada which carried on business in Ontario without a permanent establishment. They are repealed retroactive to December 7, 1977. Corporations carrying on business in Ontario and liable for tax under these provisions since December 7, 1977 will not have to file Ontario returns and will not be subject to Ontario tax.

*FAST WRITE-OFF FOR POLLUTION CONTROL EQUIPMENT - section 14(7)(a)*

Certain pollution control equipment included in capital cost allowance classes 24 and 27 qualifies for accelerated write-off over two years under paragraph 1100(1)(t) of the federal regulations and section 301(1) of the Ontario regulations. This incentive has been extended indefinitely for both federal and Ontario purposes.

*FAST WRITE-OFF FOR ENERGY EFFICIENT EQUIPMENT - section 14(7)(a)*

Certain equipment for generation of heat, steam or electricity using waste products qualifies for accelerated write-off over two years under paragraph 1100(1)(y) of the federal regulations and section 301(1) of the Ontario regulations. This incentive has been extended to apply to equipment acquired before 1981 for both federal and Ontario purposes.

*CAPITAL TAX CHANGES*

*REDUCED CAPITAL TAX FOR SMALL BUSINESS - section 133a*

Corporations with taxable paid-up capital (before allocation to Ontario) over \$100,000 up to \$1 million will now pay the lesser of the tax otherwise payable and \$100. Those with taxable paid-up capital over \$1 million and up to \$1.2 million will pay the lesser of the tax otherwise payable and the amount calculated as follows:

0.3% of taxable paid up capital

minus 1.45% of (\$1.2 million less taxable paid-up capital).

The reduced tax currently allowed to "loss corporations" with taxable paid-up capital up to \$1 million will be discontinued.

Corporations with taxable paid-up capital up to \$100,000 will continue to pay the minimum \$50 tax.

Corporations with taxable paid-up capital (before allocation) of:	will pay the lesser of	and the tax otherwise payable of:
up to \$100,000	\$50	\$50 to \$300
over \$100,000 up to \$1,000,000	\$100	up to \$3,000
\$1,000,000 to \$1,200,000	3/10 of 1% of taxable paid-up capital <u>minus</u> 1.45% of (\$1.2 million less taxable paid-up capital)	up to \$3,600

#### PRORATION

For taxation years which include Budget day, the tax liability will be the aggregate of:

- the tax calculated as above, reduced by the proportion of the taxation year before April 23, 1980; and
- the tax calculated on the previous basis, reduced by the proportion of the taxation year after April 22, 1980.

#### INVESTMENT ALLOWANCE FOR LOANS TO RELATED NON-RESIDENTS - section 127(1)(c)(ii)

Amounts due from related corporations with head offices outside Canada have been deemed not to be loans and advances to other corporations for investment allowance purposes. For taxation years ending after April 22, 1980 such amounts will qualify as investments provided that they have been outstanding for at least 120 days prior to the year end of the lending corporation.

#### FAMILY FISHING CORPORATIONS

Family fishing corporations will be treated the same as family farm corporations for capital tax purposes paying a capital tax of only \$50. An Interpretation Bulletin on this subject is being prepared (see Information Bulletin Number 18-80 paragraph on SPECIAL BULLETINS, for how to obtain a copy).



Ministry  
of  
Revenue

Lorne Maeck  
Minister

T. M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

Number 18 - 80

April 22, 1980

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1160

## ONTARIO BUDGET 1980

This Bulletin is the second of two summarizing changes to *The Corporations Tax Act*, proposed by the Treasurer of Ontario in the 1980 Budget released on April 22, 1980.

### ADMINISTRATIVE AND OTHER ITEMS

- CAPITAL TAX CLARIFICATION
  - Investment allowance on certain term deposits.
- RECENT FEDERAL CHANGES PARALLELED
  - Inventory depreciation adjustment.
  - Income debenture treatment.
  - Deductibility of underwriting fees.
  - Amalgamations.
- ONE YEAR CARRY BACK OF TAX CREDIT FOR INVESTMENT IN SBDC
- ONTARIO MINERAL EXPLORATION PROGRAM
- CHANGES AFFECTING INTEREST CALCULATIONS
- SPECIAL BULLETINS AVAILABLE

#### CAPITAL TAX CLARIFICATION

##### INVESTMENT ALLOWANCE ON CERTAIN TERM DEPOSITS - section 127(1)(c)(i)

Cash on deposit with a corporation doing the business of a savings bank is deemed not to be a loan or advance to another corporation and therefore does not qualify as an investment for capital tax purposes. It is the Ministry's view that term deposits with Canadian banks and investment certificates of Canadian trust companies are cash on deposit for this purpose unless they are of an investment nature. Canadian term deposits and investment certificates having the characteristics of an investment, indicated by the following guidelines, are eligible for investment allowance.



To qualify as investments, term deposits and investment certificates should be for a term of and held by the corporation for at least 120 days. The introduction of this time limit to qualify term deposits is a change in administrative practice and will be effective for taxation years ending after April 22, 1980. Interpretation Bulletin L-10 will be updated.

#### *FEDERAL CHANGES*

The following changes of general interest in federal income tax policy are implemented by federal Bill C-17. Ontario is tied in to these changes and they will be treated in the same manner as they are treated by Revenue Canada.

#### *INVENTORY ADJUSTMENT*

For taxation years ending after November 16, 1980, the portion of closing inventory relating to depreciation, obsolescence and depletion is to be included in income. Such amounts may then be deducted in the following year.

#### *INCOME DEBENTURES*

Dividend treatment is to be given only in respect of income bonds, income debentures and term preferred shares issued before November 17, 1978 (or before January 1, 1980, if pursuant to an agreement entered into before that date) and under certain defined circumstances for later issues.

#### *UNDERWRITING EXPENSES*

Underwriters' commissions and fees incurred after November 16, 1978 are deductible for all corporations. However, where the underwriter purchases debt securities as principal rather than agent, the underwriting fee may be a discount rather than a commission and therefore non-deductible until such time as the debt is repaid.

#### *AMALGAMATIONS*

To qualify for a tax-free amalgamation it was previously necessary for the shareholders of the predecessor corporations (A and B) to receive shares in the amalgamated corporation (C). Effective November 16, 1979 these rules have been broadened so that the A and B shares may be rolled over for shares of D, where D is a taxable Canadian corporation controlling C.

#### *CARRY BACK OF TAX CREDIT FOR INVESTMENT IN SBDC*

The following changes affecting corporate investors will be made to The Small Business Development Corporations Act:

- One year carry back of the unused income tax credit will be allowed in addition to the existing indefinite carry forward.
- The incentive will be provided in the form of a grant rather than a tax credit for credit unions, pension corporations and other prescribed organizations.

The SBDC program offers attractive financial incentives to investors. Grants equal to 30% of the amount paid for equity shares in a Small Business Development Corporation are given to individual investors; corporate investors receive a tax credit equal to 30% of the amount invested. Individuals or corporations may establish Small Business Development Corporations to direct capital and provide management expertise to certain eligible small businesses. These businesses must be primarily involved in the fields of manufacturing and processing, tourism, book publishing, or prescribed research and development.

For information or detailed literature on the program, please call our toll free Information Centre:

- In Metro Toronto, dial 965-8470.
- In area code 807, ask the Operator for Zenith 8-2000.
- In all other areas, dial 1-800-268-7121.

#### *ONTARIO MINERAL EXPLORATION PROGRAM (OMEP)*

This program will provide a credit against Ontario income tax equal to 25% of funds spent on eligible exploration in Ontario. It will be available to certain non-producing exploration corporations and non-principal business corporations.

For details of this program contact:

OMEP  
Ministry of Natural Resources  
Whitney Block  
Queen's Park  
Toronto, Ontario M7A 1W3

Telephone: (416) 965-1062

#### *CHANGES AFFECTING INTEREST CALCULATION*

##### *APPLICATION OF PAYMENTS RECEIVED - section 148*

Payments received on or after October 1, 1980 will be applied in the following order:

- (1) to interest;
- (2) to penalties; and finally
- (3) to taxes payable.

##### *DEFINITION OF TAX PAYABLE - section 149*

For purposes of interest calculations the amount of tax payable will include any penalty payable. From October 1, 1980, interest will be charged on penalties as well as on tax payable.

#### *INSTALMENT INTEREST UPON RE-ASSESSMENT - section 149*

Corporations whose estimated tax is \$2,000 or more are required to pay twelve monthly instalments over the taxation year.

Debit interest is charged on deficiencies in instalments at the time the taxation year is assessed after a return is filed. There is no additional interest charged on deficiencies in instalments if the liability is increased by subsequent re-assessments.

Similarly, credit interest is allowed on excessive instalments at time of original assessment but no additional credit interest will be allowed on excessive instalments if the liability is decreased by subsequent re-assessment.

#### *SPECIAL BULLETINS*

Only those Corporations Tax Branch Information and Interpretation Bulletins which are of general interest are distributed to all corporations on the tax roll.

The following bulletins have not been mailed to all subscribers. If you are interested in their subject matter, you may request them by telephone from the Branch at (416) 965-1160.

#### *NON-RESIDENT ENTERTAINERS - OCTOBER 15, 1979*

The 1979 Ontario Budget introduced amendments whereby persons making payments to certain incorporated non-resident entertainers who have performed in the Province are required to withhold and remit 5% of those payments to the Ministry on account of Ontario corporations tax. This bulletin summarizes the new requirements and the corresponding administrative procedures.

#### *REPEAL OF STATUTORY LIEN - DECEMBER 3, 1979*

The statutory lien for amounts owing under The Corporations Tax Act was repealed effective November 30, 1979 (January 31, 1980 where a lien against real property had been claimed). This Information Bulletin provides further details and explains the implications of the new procedures whereby the Ministry will register liens on real property.

#### *CONDOMINIUM AND CO-OPERATIVE HOUSING CORPORATIONS - APRIL, 1980*

This Bulletin describes Ministry policy regarding the tax liability and filing requirements for condominium and co-op housing corporations.

#### *FAMILY FARM/FISHING CORPORATIONS - IN PREPARATION*

This Interpretation Bulletin provides Ministry guidelines covering the restrictions on ownership, assets and operations which determine whether corporations qualify for the special \$50 capital tax treatment given to family farm corporations and family fishing corporations.





Ministry  
of  
Revenue

Lorne Maeck  
Minister

T M Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

Number 19-80

September, 1980

CH2 ON  
R470  
-152

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1160

## IMPORTANT NOTICE

- Equalization of Interest Rates at 12%

### OTHER ITEMS

- Tax Instalment Requirements
- Due Date of Balance of Taxes Payable
- Due Date for Filing Return
- Application of Interest
- Application of Payments

#### *EQUALIZATION OF INTEREST RATES AT 12%*

Interest rates on overpayments and refunds of taxes administered by the Ministry of Revenue are being increased to match the interest rate charged on taxes overdue. To equalize these rates, a uniform interest rate of 12% has been established.

The equalizing of rates ensures taxpayers of the same rate of return on their money as they are obliged to pay for any tax indebtedness. Details of these changes from the old rates to the new equalized rate of interest are as follows:

#### *CREDIT INTEREST CHANGES*

- Overpayment of taxes: from 6% to 12%
- Refund of taxes: from 6% to 12%
- Refunds on successful objection or appeal: from 9% to 12%

#### *DEBIT INTEREST CHANGE*

- Underpayment of taxes: from 9% to 12%

#### *EFFECTIVE DATE*

The new uniform rate of 12% takes effect on October 1, 1980 for interest calculated on outstanding or overpaid corporations taxes. For other taxes, it is effective from August 1, 1980. For Provincial Land Tax it will be effective at a later date.

The above change in interest rates will apply in the following manner:

If part of the period for which interest is calculated falls before October 1, 1980, then the old rate of 6% or 9%, as the case may be, will be used for that part of the period.

For the part of the period commencing on or after October 1, 1980, the new 12% rate will be used.

The Corporations Tax Branch procedures for calculation of interest and other relevant information are detailed below.

#### *CORPORATIONS TAX DETAILS*

##### *TAX INSTALMENT REQUIREMENTS*

Instalment payments are required when the total taxes for both the current and the previous taxation year are \$2,000 or more. They are due on or before the last day of each month of the taxation year.

Each instalment should equal:

- (1) 1/12th of the estimated tax payable for the current taxation year  
or,
- (2) 1/12th of the tax payable based on the previous taxation year adjusted where necessary, to current rates,  
or
- (3) at the end of each of the first two months - 1/12th of the tax payable based on the taxation year immediately preceding the previous taxation year, and at the end of each of the remaining ten months - 1/10th of the amount remaining when the amount paid in the first two months is deducted from the tax payable on the previous taxation year, - adjusted, where necessary, to current rates.

For interest purposes, instalments must equal 1/12th of the lesser of the tax payable for the current taxation year or the first prior (i.e. the previous) taxation year, except where the tax payable for the second prior taxation year is less than either of these amounts. In this latter case, the first two instalments only are required to be based on the tax payable for the second prior taxation year.

##### *DUE DATE FOR BALANCE OF TAXES PAYABLE*

Where a corporation has made a small business deduction under section 125 of the Income Tax Act (Canada) in the current or previous taxation year, the balance of taxes (total taxes payable less instalments paid, if any) is due on or before the last day of the third month following the end of the taxation year. In other cases, the balance is due on the last day of the second month following the end of the taxation year.

## *DUE DATE FOR FILING RETURN*

The Corporations Tax Return, CT 23, is due on or before the last day of the sixth month following the end of the taxation year. The penalty for late filing is 5% of unpaid taxes up to \$500.

## *APPLICATION OF INTEREST*

Debit interest is charged on late or deficient instalments from due dates until payments are received.

Credit interest is allowed where instalments are overpaid at any time after the first instalment due date up to the earlier of: (a) the date on which the balance of taxes is due, or (b) the date on which a refund is made.

Credit interest is allowed where an overpayment is refunded or applied to another liability, commencing with the later of: (a) the day on which the overpayment occurred, or (b) the date on which the balance of tax is due, and ending with the date of refund or application. The date of application is the later of: (a) the first instalment due date for the subsequent taxation year, or (b) the date on which the overpayment arose.

Debit interest on a deficient final payment is calculated from the date on which the balance of tax is due to the date of assessment/re-assessment or to the date of payment if it is more than 30 days after the date of assessment/re-assessment.

## *APPLICATION OF PAYMENTS*

Effective October 1, 1980, payments will be applied in the following order: (a) to interest owing, (b) to penalties owing, and (c) to tax owing. Unpaid penalties will attract interest in the same manner as unpaid taxes.

## *ADDITIONAL INFORMATION*

Further information or clarification regarding corporations tax payments, interest, and penalty charges may be obtained from the Corporations Tax Branch:

- Telephone

Accounts Section - (416) 965-2948

- Or write us at

Ministry of Revenue  
Corporations Tax Branch  
Queen's Park  
Toronto, Ontario  
M7A 1Y1







Ministry  
of Revenue

George Ashe  
Minister

T. M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

Number 20-81

Government  
Publications

June 1, 1981

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1160

## ONTARIO BUDGET 1981

This Bulletin is the first of two Corporations Tax Information Bulletins summarizing changes to The Corporations Tax Act, proposed by the Treasurer of Ontario in the 1981 Budget released on May 19, 1981. Bulletin Number 21-81 summarizes administrative and other items.

### HIGHLIGHTS

#### • INCOME TAX

- FAST WRITE-OFF EXTENDED FOR ENERGY EFFICIENT EQUIPMENT
- TAX INCENTIVE RE-INTRODUCED FOR MULTIPLE-UNIT RESIDENTIAL BUILDINGS (MURBS)
- SMALL BUSINESS DEVELOPMENT BONDS
- TAX INSTALMENTS — CHANGES TO BASE IN CERTAIN CASES
- NON-RESIDENT ENTERTAINMENT CORPORATIONS
- EXPLORATION AND DEVELOPMENT GRANTS
- DEPLETION ALLOWANCE — OIL AND GAS
- DEVELOPMENT EXPENSES — OIL, GAS AND MINING

#### • CAPITAL TAX

- APPRAISAL SURPLUS
- QUALIFICATION FOR FLAT \$50 AND \$100 TAX — ASSOCIATED CORPORATIONS AND PARTNERSHIPS

#### INCOME TAX

##### *FAST WRITE-OFF FOR ENERGY EFFICIENT EQUIPMENT - section 14(7)(a)*

Certain equipment for the generation of heat, steam or electricity using waste products qualifies for accelerated write-off over two years under paragraph 1100(1)(y) of the federal regulations and section 301(1) of the Ontario regulations. For both federal and Ontario purposes this incentive is extended to equipment acquired before 1985.

*TAX INCENTIVE FOR MULTIPLE-UNIT RESIDENTIAL BUILDINGS (MURBS)  
- section 14(7)(a)*

The MURBS tax incentive permits capital cost allowances on eligible rental buildings to be used as a shelter from tax on income from other sources. For both federal and Ontario purposes this incentive (Classes 31 and 32) which expired on December 31, 1979 is re-introduced effective for construction starts after October 28, 1980 and before 1982.

*SMALL BUSINESS DEVELOPMENT BONDS - section 14(1)*

Section 15.1 of the Income Tax Act (Canada) provides an incentive to reduce interest costs for qualifying small business corporations. The interest received by the holder of Small Business Development Bonds will be treated as a "taxable dividend". The interest paid by the small business will be treated as a dividend payment and therefore not deductible from income. Ontario is paralleling this federal legislation applicable to Small Business Development Bonds issued after December 11, 1979 and before 1982.

*TAX INSTALMENTS - CHANGES TO BASE IN CERTAIN CASES - section 148(3)*

Corporations are required to pay monthly tax instalments based on either their taxes paid for the previous year or an estimate of their current year tax. In cases such as amalgamations, winding-ups, certain asset transfers and short fiscal years the instalment base upon which a corporation is required to calculate its tax instalments may be reduced because the year on which it is based is less than 365 days, because the tax for the previous taxation year is zero, or because this is its first taxation year. In order to prevent unjustified reductions to the base and ensure that appropriate instalments are required, effective for taxation years commencing after September 30, 1981, Ontario is paralleling the federal changes. The regulations will be amended when the federal regulations are finalized.

*NON-RESIDENT ENTERTAINMENT CORPORATIONS - section 7(8), 148a,  
Regulation section 728*

Incorporated non-resident entertainers not otherwise having a permanent establishment in Ontario will no longer be taxed for performances in Ontario. For performances presented after May 19, 1981, promoters will no longer have to withhold and remit taxes. The pertinent provisions of The Corporations Tax Act and regulations will be repealed.

*EXPLORATION AND DEVELOPMENT GRANTS - sections 20 and 20a*

Any assistance or benefit that a corporation has received, or is entitled to receive, from a government, municipality or public authority relating to exploration or development activities after 1980, or to acquisitions of property after 1980, will



reduce Canadian exploration and development expenses or Canadian oil and gas property expenses in the same manner as the federal legislation.

This applies to taxation years ending after 1980.

*DEPLETION ALLOWANCE - OIL AND GAS - Regulation sections 201 to 210*

Ontario is paralleling the federal change to depletion allowance as it applies to oil and gas companies effective January 1, 1981 in the same manner as the federal legislation. The main areas affected are:

- Expenses for exploration on "Canada lands" and development expenses for certain eligible projects (enhanced recovery, oil sands and heavy oil projects) will continue to earn depletion at the rate of \$1 for every \$3 of eligible expenditures after 1980.
- Earned depletion will be phased out for exploration elsewhere in Canada. Depletion will be earned at the rate of 33 1/3% of eligible expenditures for 1981, 20% for 1982 and 10% for 1983. Thereafter such expenditures will not earn depletion allowance.
- The supplementary depletion currently earned at the rate of 50% of the cost of enhanced oil recovery machinery and equipment, and 33 1/3% of the cost of bituminous sands equipment, deductible up to a maximum of 50% of total income, will continue until the end of 1980. After 1980 such expenditures will earn depletion at the rate of 33 1/3% provided they are part of certain eligible projects. Machinery and equipment acquired for a facility to upgrade heavy oil to a crude oil equivalent will also earn depletion at a 33 1/3% rate.
- All grants and incentive payments must be deducted from the earned depletion base.
- Certain administrative and overhead costs will cease to qualify for earned depletion.
- All earned depletion allowances will be limited to 25% of resource income.

*DEVELOPMENT EXPENSES - OIL, GAS AND MINING - sections 20 and 20a*

For principal-business corporations, Canadian exploration and development expenses have qualified for a 100% write-off against income. Non principal-business corporations could write-off such expenses incurred in Ontario at 100%; and those incurred outside Ontario at the greater of 20% of the accumulated balance or the income from production.

Effective for expenses incurred after May 19, 1981, both principal and non principal-business corporations will be entitled to a 100% deduction for exploration expenses incurred in Canada.

Both principal and non principal-business corporations will be entitled to a 100% deduction for development expenses incurred in Ontario after May 19, 1981. For Canadian development expenses incurred outside Ontario, both principal and non principal-business corporations will be entitled to a 30% deduction.

For all corporations a 10% deduction for Canadian oil and gas property expenses will apply in the same manner as for federal purposes.

#### *CAPITAL TAX*

##### *APPRAISAL SURPLUS - section 127*

The computation of paid-up capital for capital tax purposes will exclude any appraisal surplus shown on the financial statements of a corporation.

This change is effective for taxation years ending after May 19, 1981.

##### *QUALIFICATION FOR FLAT \$50. AND \$100. TAX - ASSOCIATED CORPORATIONS AND PARTNERSHIPS*

Corporations with taxable paid-up capital up to \$100,000. pay a reduced capital tax of a flat \$50. annually instead of the normal rate of 3/10 of 1%. Those with taxable capital over \$100,000. and up to and including \$1,000,000. pay a reduced capital tax of a flat \$100. Associated Corporations will be required to include the taxable paid-up capital of the other group member corporations and corporate members of partnerships will be required to include the share of the taxable paid-up capital of the related partners in the partnership when calculating whether the overall paid-up capital falls within the above limits for qualification for the \$50. and \$100. flat tax.

This change becomes effective for taxation years ending after May 19, 1981.



Ministry  
of Revenue

George Ashe  
Minister

T. M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

Number 21-81

Government  
Publication

June 1, 1981

## DEPOSITORY LIBRARY MATERIAL

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1160

## ONTARIO BUDGET 1981

This Bulletin is the second of two Corporations Tax Information Bulletins summarizing changes to The Corporations Tax Act, proposed by the Treasurer of Ontario in the 1981 Budget released on May 19, 1981.

### ADMINISTRATIVE AND OTHER ITEMS

#### • CAPITAL TAX

- CAPITAL TAX OF NON-SHARE CORPORATIONS
- FAMILY FARM AND FAMILY FISHING CORPORATIONS
- INVESTMENT ALLOWANCE — TERM DEPOSITS AND SIMILAR ITEMS

#### • INCOME TAX

- CAPITAL GAINS — NON-RESIDENT CORPORATIONS, TREATY COUNTRIES
- PERMANENT ESTABLISHMENT — REGISTERED OFFICE AND HEAD OFFICE
- LIMIT ON DEDUCTION FROM INCOME — FOREIGN NON-BUSINESS INCOME TAXES
- SIX YEAR LIMIT — DESIGNATED ASSESSMENT FOLLOWING OBJECTION
- CREDIT INTEREST ON OVERPAYMENTS — CLARIFICATION



#### CAPITAL TAX

##### *CAPITAL TAX OF NON-SHARE CORPORATIONS - section 126(1)(a), (d)*

Section 126(1) requires that corporations having share capital include in paid-up capital the loans, advances and capital contributions of their shareholders. This provision is being amended to require a similar inclusion in paid-up capital by corporations incorporated without share capital of any loans, advances and capital contributions made by their members.

These changes are effective for taxation years ending after May 19, 1981.



*FAMILY FARM AND FAMILY FISHING CORPORATIONS - sections 1(1)(d),  
(da)*

Corporations which qualify as family farming or family fishing corporations are subject to a flat \$50 capital tax annually instead of capital tax calculated at the normal rate of 3/10 of 1%. The qualifications are being changed to:

- clarify that all the issued, voting shares collectively should be owned by an individual alone or together with members of his family. Both the individual and those members of his family must be ordinarily resident in Canada.
- require that 75% of a corporation's assets must be farming (fishing) assets, as defined, instead of 95%
- allow mortgages taken back on the sale of farm land to qualify as farming assets, if the other farming assets, as defined, are not less than 50% of all assets.

These changes are effective for taxation years ending after May 19, 1981.

*INVESTMENT ALLOWANCE - TERM DEPOSITS AND SIMILAR ITEMS - section*

It has been administrative policy to permit term deposits with Canadian banks and investment certificates of Canadian trust companies to qualify as eligible investments for investment allowance purposes provided they are for a term of and held by the corporation for at least 120 days.

This policy is now being legislated. It is effective for taxation years ending after April 22, 1980, the date the policy was first adopted (see Information Bulletin 18-80 dated April 22, 1980).

Bankers' acceptances issued for a term of less than 120 days will not qualify as investments for investment allowance purposes. This change is effective for taxation years ending after May 19, 1981.

*CAPITAL GAINS - NON-RESIDENT CORPORATIONS - TREATY COUNTRIES*

Non-resident corporations which have capital gains from the disposition of taxable Canadian property situated in Ontario but no other business in Ontario are presently exempt from Ontario tax if these gains are also exempt from federal tax under a tax treaty between Canada and the foreign country of incorporation. This exemption is being extended to include capital gains made by certain non-resident corporations which

are otherwise taxable in Ontario from the sale or rental of real property or timber resource property in Ontario. Therefore, all capital gains made by a non-resident corporation which are exempt from federal tax under a tax treaty will also be exempt from Ontario tax, provided that the non-resident does not otherwise have a permanent establishment in Ontario.

This change applies to dispositions of taxable Canadian property situated in Ontario made during taxation years ending after 1980.

*PERMANENT ESTABLISHMENT - REGISTERED OFFICE AND HEAD OFFICE*  
*- section 7(11)*

Under section 7(11) a corporation has a permanent establishment in the place designated in its charter or by-laws as its head office. In order to accommodate proposed changes to the Ontario Business Corporations Act that will require a corporation to maintain a "registered office" in Ontario rather than a "head office", section 7(11) is being amended to include a registered office.

A further change is being made to restrict the application of section 7(11). A corporation's head office or registered office will not constitute a permanent establishment in a jurisdiction if the corporation has a permanent establishment elsewhere in Canada.

These changes are effective for taxation years ending after May 19, 1981.

*LIMIT ON DEDUCTION FROM INCOME - FOREIGN NON-BUSINESS INCOME TAXES*  
*- section 14*

Under section 14 of the Act, which ties in with section 20(12) of the Income Tax Act (Canada), a corporation may deduct from income a part or the whole of its foreign taxes paid on foreign non-business income. An amendment is necessary to clarify that a corporation cannot deduct from Ontario income any portion of foreign taxes if full credit for it was obtained through the federal tax deduction under section 126 of the Income Tax Act (Canada). The deduction from Ontario income is limited to that portion of the foreign taxes remaining after the federal tax deduction.

This clarification is effective for taxation years ending after May 19, 1981.

*SIX YEAR LIMIT - DESIGNATED ASSESSMENT FOLLOWING OBJECTION*  
*- section 160b(3)*

Under section 160b a "designated assessment" arises when Ontario re-assesses a corporation based on an assessment made under the Income Tax Act (Canada). An Ontario notice of objection need not be filed to a designated assessment and Ontario is bound to accept the settlement of the federal notice of objection. However, because of the six year limitation under section 150(4), Ontario was not required to parallel a federal

settlement made more than six years from the date the corporation was originally re-assessed. This limitation will no longer apply to settlement of objections to designated assessments.

This change is effective upon Royal Assent to the amending Bill.

*CREDIT INTEREST ON OVERPAYMENTS - CLARIFICATION - section 153(1)(a)*

Under section 148(3) monthly instalments of tax are required with the balance of tax payable two months after the end of the taxation year (three months after the end of the taxation year for small businesses).

Section 153(1) is being amended to clarify that credit interest is payable to a corporation on overpayments of both instalments and on the balance of tax payable.

This clarification is effective upon Royal Assent to the amending Bill.

*CORRECTION*

Bulletin 18-80 dated April 22, 1980 (page 2) listed federal changes in Bill C-17 with which Ontario is tied-in. Under "Inventory Adjustment" and "Amalgamations" the effective date was shown as taxation years ending after November 16, 1980. This should have read November 16, 1978, the effective date of the federal legislation.





Ministry  
of Revenue

Corporations  
Tax Branch

# Information Bulletin

George Ashe  
Minister

T.M. Russell  
Deputy Minister

Number 2-77R

September 14, 1981

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1160

SUBJECT: Advance Corporations Tax Rulings

## INTRODUCTION

Information Bulletin 2-77 announced the guidelines under which the Corporations Tax Branch would issue formal advance rulings. Changes have become necessary in certain of the guidelines as well as in the fees charged for this service. Therefore, this Bulletin replaces and cancels Information Bulletin 2-77 dated March 21, 1977.

## DISTINCTION BETWEEN ADVANCE RULINGS AND OPINIONS.

1. The issuance of formal advance rulings is a special service of the Corporations Tax Branch. The Branch also provides informal advice and assistance on routine or simple matters, but opinions expressed during such discussions or exchanges of correspondence are not considered advance rulings, and are not binding upon the Ministry.

## DEFINITION OF ADVANCE RULING

2. An advance ruling is a statement given by the Corporations Tax Branch to a corporation stating how it will interpret provisions of the Corporations Tax Act in respect to a specific transaction which the corporation is proposing.

## REQUEST FOR RULING

3. The request should contain a clear statement of the question(s) on which the ruling is required, a complete and detailed statement of the relevant facts, and frank disclosure of the purpose of the proposed transaction(s). It should also indicate the relevant provisions of the Act on which the ruling is requested, and the corporation's own interpretation of those provisions.



CA24N  
Ru70  
- 532

#### RULING BINDING

4. An advance ruling, subject to any limitations or qualifications contained therein and to the comments in paragraphs 5 to 10 below, will be regarded as binding upon the Ministry.

#### LIMITATIONS ON RULINGS

5. An advance ruling will be given only in respect to a proposed transaction, its purpose being to enable taxpaying corporations to decide upon a planned course of action. In addition, it will apply only to the corporation for which it is requested and others named in it, and to the transaction specified in the ruling. Where the federal legislation is the same as Ontario's, limitations set in Revenue Canada Information Circular No. 70-6R will apply.

#### CONDITIONS RESPECTING A RULING

6. If there is an omission or misrepresentation in the information supplied to this Ministry for a ruling, the ruling may be revoked retroactively and the Ministry will not be bound by it.
7. A ruling may also be revoked where it was based on an interpretation of the law that has subsequently changed as a result of a court decision. In this case, revocation would take effect only from the date of the relevant court decision.
8. Where the transactions in respect of which a ruling was given have not been substantially completed within the time limit specified in the ruling, the ruling will not be binding upon the Ministry unless the corporation obtains confirmation that the ruling is still in effect. Such confirmations may be given for further specific periods.
9. Where the law upon which a ruling was based changes, the ruling ceases to be valid from the effective date of the change in the law.
10. Where a ruling is issued covering a continuing action or series of actions, and it is determined that the ruling is no longer in accord with the practice of the Ministry or that the ruling is in error, the ruling may be revoked. The revocation will not be made retroactively.

#### ONTARIO PROVISIONS PARALLELING FEDERAL ACT

11. Where provisions of Ontario's Corporations Tax Act parallel provisions of the Income Tax Act (Canada), a ruling must *first* be obtained from Revenue Canada before a ruling is given by this Ministry. A copy of the Revenue Canada ruling, together with a copy of the original application and accompanying material, should be forwarded to the Corporations Tax Branch with a request for an Ontario ruling.

12. Where the Income Tax ruling bears directly on another Ontario statute such as The Small Business Development Corporations Act and a ruling is also required for the other statute, then the two requests may be submitted as a package. They will be referred to the appropriate Branch for a decision and the reply issued by this Branch will constitute a binding ruling under both Acts.

#### *REQUEST FOR RULING ON ONTARIO CORPORATIONS TAX ACT*

13. A request for an advance ruling under the Ontario Act should be submitted with all relevant documents to:

The Director  
Corporations Tax Branch  
Ministry of Revenue  
Queen's Park  
Toronto, Ontario  
M7A 1Y1

If the request is made by a representative of the corporation, the corporation must submit a letter to the Ministry authorizing the representative to act on its behalf.

#### *FEE FOR RULINGS*

14. For submissions after October 1, 1981, a fee of \$50 for each hour spent in preparing the rule will be charged, with a minimum of \$125. The minimum fee must accompany the request for the ruling. The increase in the fees charged for this service have become necessary due to higher salary and administration costs to the Corporations Tax Branch.

#### *CONSULTATION ON A RULING*

15. A corporation may, either directly or through its representative, make a request in writing to discuss the issues involved in person with staff members of the Corporations Tax Branch. This request should be made at the same time or immediately after the request for the ruling is made.

#### *RECONSIDERATION OF A RULING*

16. A request for reconsideration of a ruling will be allowed only if the corporation can provide new information or can show that there was a misunderstanding of information previously submitted.

#### *REFUNDS*

17. Where a corporation withdraws its request for a ruling, and work has not yet commenced towards furnishing the ruling, the fee will be refunded. However, if work has already begun, a fee will be charged for the time spent on the ruling.



*PROCESSING TIME*

18. While every effort will be made to deal with requests for rulings as quickly as possible, no commitment can be given on the time required to process them. Corporations will be notified where an extended delay is foreseen.
19. Taxpayers and their representatives are urged to forward their requests for advance rulings well ahead of the proposed transactions. The Branch cannot guarantee to provide a ruling on short notice prior to the transactions being entered into.



Ministry  
of Revenue

Corporations  
Tax Branch

# Information Bulletin

George Ashe  
Minister

T.M. Russell  
Deputy Minister

Number 10-78R

September 14, 1981

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Telephone: 965-1160

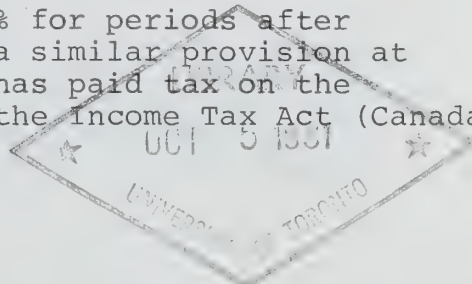
DEPOSITORY LIBRARY MATERIAL

SUBJECT: Summary of Policy Differences Between the Corporations  
Tax Act and the Income Tax Act (Canada)

Amendments to the Corporations Tax Act and the Income  
Tax Act (Canada) have necessitated this Bulletin which replaces  
Bulletin Number 10-78 issued February 1, 1978.

The following list includes major policy differences  
between the taxing provisions of the Corporations Tax Act relat-  
ing to income tax and those of the Income Tax Act (Canada) which  
apply to corporations. They are described in general terms.  
They do not include the full details of the legislative differ-  
ences in every case.

- The rate of income tax on corporations in Ontario is 14%.
- The credit available for political contributions is in the form of a deduction from taxable income and applies to contri-  
butions to Ontario political parties and candidates in an  
Ontario election. At the federal level the deduction is in  
the form of a tax credit and applies to contributions to a  
federal political party or candidate.
- Specific provisions of the Corporations Tax Act permit the de-  
duction of fees paid under the Ontario Beef Calf Income  
Stabilization Program and require stabilization payments re-  
ceived to be included in income. A similar treatment may be  
accorded at the federal level under general provisions.
- 5/14 of management fees, rents, royalties and similar payments  
to non-residents in non-arm's length transactions which are  
subjected to federal withholding tax are added to income for  
Ontario purposes. At the federal level they are deductible in  
computing income.
- Corporations which make low interest or interest-free loans to  
a non-resident must include in income nominal interest on the  
loan computed at a prescribed rate (12% for periods after  
1980). Such loans are not subject to a similar provision at  
the federal level if the non-resident has paid tax on the  
amount of the loan under Part XIII of the Income Tax Act (Canada).



- Both Ontario and the federal authorities use the same classes of assets and capital cost allowance rates, except for Ontario grain storage facilities. The amount of C.C.A. deducted in Ontario may differ from that at the federal level.
- The federal incentive in which the capital cost of certain assets acquired after December 3, 1970 and before April 1, 1972 was set at 115% of the actual cost was not adopted by Ontario. C.C.A. differences between the jurisdictions necessarily remain in respect of such assets.
- Resource Corporations

Ontario's depletion allowance for mines is 33 1/3% of resource profits whereas at the federal level depletion is limited to 1/3 of the corporation's investment, up to a maximum of 25% of resource profits. Depletion allowances for oil and gas companies are computed on the same basis for Ontario and federal purposes. However, the concept of earned depletion is applicable for federal purposes for taxation years ending after May 6, 1974 and for Ontario purposes for taxation years ending after April 19, 1977. Incentives similar to those proposed in the federal Petroleum Incentives Program are not provided by Ontario.

Ontario has paralleled the federal rules relating to deductions for Canadian exploration expenses, Canadian development expenses and Canadian oil and gas property expenses incurred after May 19, 1981. The following difference remains:

Resource companies in the oil and gas or mining industries are entitled to a 100% deduction for Ontario tax purposes for development expenses incurred in Ontario. For federal purposes, such companies are entitled to a 30% deduction.

Resource corporations are entitled to a 30% deduction for Ontario and federal purposes for development expenses incurred outside Ontario.

A resource allowance of 25% of resource profits may be claimed by mining companies for federal purposes. No such allowance is available to mining companies for Ontario tax purposes.

Foreign resource properties are treated as capital assets by Ontario. At the federal level they are treated as income assets and on disposition proceeds of sale are added to income but may be reduced by undeducted foreign exploration and development expenses.

- Non-profit organizations are exempt from income tax both in Ontario and at the federal level as long as the non-profit corporation does not confer a benefit on its shareholders.

If a corporation confers a benefit on its shareholders, Ontario will subject the corporation to tax for the year in which the benefit is conferred, including the total of its income from all previous years formerly exempt, and for each subsequent year.



- For federal tax purposes, a condominium corporation is not considered to be a non-profit organization exempt from tax. However, these corporations are generally not taxable as long as their activities involve dealings with members. The specific kinds of income which are subject to tax at the federal level include:
- Interest on operating or reserve funds maintained at unreasonably high levels in relation to the purpose of the fund.
- Income derived from a business not involving rental of condominium common areas.

For Ontario purposes, condominium and co-operative housing corporations are considered to be exempt non-profit organizations in the first instance. However, tax exempt status is lost for a year in which such a corporation is subjected to federal tax and for all subsequent years. See Information Bulletin - Condominium and Co-operative Housing Corporations issued April, 1980 for more details.

#### ● Tax Credits for Canadian Small Business

Certain Canadian controlled private corporations are effectively taxed at less than full rates on business income for both Ontario and federal purposes. For Ontario purposes, a single effective tax rate (10%) is applicable. However, for federal purposes, certain companies engaged in providing professional, managerial, administrative or similar services are effectively taxed at a higher rate (23 1/3%) than those not providing such services (15%).

#### ● Manufacturing and Processing Profits Credit

Tax credits are offered by both jurisdictions to corporations engaged in manufacturing and processing. Briefly, the major policy differences relating to the computation of manufacturing and processing profits credits are:

- The Ontario credit is based on "eligible Canadian profits" which includes the computation of income on a basis acceptable for Ontario tax purposes. The federal credit is based on "Canadian manufacturing and processing profits". While the Ontario profit base includes elements derived from mining, farming, logging or fishing, the federal base does not.
- For Ontario purposes, the portion of eligible Canadian profits available for the credit is reduced by the amount of any active business income included therein eligible for the federal small business deduction. For federal purposes, Canadian manufacturing and processing profits eligible for the small business deduction may, in addition to other such profits, qualify for tax credits.
- For Ontario purposes, all of a corporation's active business income qualifies for the credit if total active business income does not exceed \$250,000 and active business income from sources other than manufacturing and processing, mining,

farming, logging or fishing does not constitute more than 20% of total active business income. At the federal level, a similar rule exists for small manufacturers with active business income not in excess of \$50,000.

- Incentive Tax Credits for Investment

Canadian controlled private corporations qualifying for the federal small business deduction relative to active business income may claim a credit (small business tax credit on depreciable property) based on the cost of depreciable assets acquired for use in Ontario for the purpose of earning income from a business. See Interpretation Bulletin L-15 dated January 20, 1981 for more details.

The investment tax credit provided for at the federal level, though not restricted to Canadian controlled private corporations, is based on the cost of certain specified depreciable assets acquired or certain expenditures incurred.

- Foreign Tax Credits

Ontario provides a foreign tax credit related only to foreign investment income whereas foreign tax credits are available at the federal level in relation to both foreign investment income and foreign business income.



Ministry  
of  
Revenue

George Ashe  
Minister

T.M. Russell  
Deputy Minister

## Corporations Tax Branch

# Information Bulletin

Number 23-82 January, 1982

CH20N  
R470  
-ISA

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1160

SUBJECT: Interest rate increased to 15%

INTEREST RATE (S. 72 and 75, Regulation S. 714)

The rate of interest payable on unpaid taxes and allowed on overpayments of tax is increased from 12% to 15%.

EFFECTIVE DATE

This change will take effect from February 1, 1982. The current rate of 12% which is effective from October 1, 1980 will apply for the period up to January 31, 1982. The earlier rates of 6% and 9% will continue to apply for periods up to September 30, 1980.

IMPACT ON TAXPAYER

Most taxpayers pay their taxes on time so will not feel this change. Those who have overpaid will begin to receive more reasonable compensation for funds held by the Ministry. Those who fail to meet the due dates specified in the Corporations Tax Act will be liable for the additional interest. They should, therefore, try to make sure their taxes are paid on time in the proper amount.

INFORMATION AVAILABLE

Taxpayers affected by the change in interest rates may wish to contact the Corporations Tax Branch at the following address or telephone number:

Accounts Correspondence Section  
12th Floor, 77 Bloor Street West  
Toronto, Ontario

(416) 965-2948

Taxpayers may also contact the Ministry of Revenue's multilingual Information Centre free of charge from anywhere in Ontario:



- In Metro Toronto - dial 965-8470
- In area code 807 - ask the operator for Zenith  
8-2000
- In all other areas - dial 1-800-268-7121



Ministry  
of Revenue

George Ashe  
Minister

F M Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

Number 26-82

May 13, 1982

Les bulletins sont disponibles en français sur demande à la Direction de l'imposition des compagnies, Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1160

This Bulletin summarizes administrative and technical changes to the Corporations Tax Act.

## TECHNICAL CHANGES

- INCOME TAX

- PAYMENTS TO NON-RESIDENTS

- CAPITAL TAX

- TAXABLE PAID-UP CAPITAL — BANKS, LOAN AND TRUST CORPORATIONS
  - TRUSTS — CORPORATE BENEFICIARIES
  - TOTAL ASSETS — INVESTMENT IN A PARTNERSHIP
  - ANY OTHER SURPLUS — EXTENSION OF MEANING

- OTHER ITEMS

- TAX INSTALMENTS

### INCOME TAX

#### *PAYMENTS TO NON-RESIDENTS - subsections 12(6), (6a)*

Five-fourteenths (5/14ths) of management fees, rents, royalties and similar payments to non-residents in non-arm's length transactions subject to federal withholding tax are added to income for Ontario purposes under subsection 12(6). This add-back is not required for rents and royalties where the non-resident recipient is liable for Ontario taxes on sale or rental of real property under clauses 2(2)(b) or 2(3)(b). This provision will be amended to clarify that the exception applies only where the non-resident recipient has included the payment in computing its taxable income earned in Canada.

A new provision will be added to prevent corporations avoiding the 5/14ths add-back by channelling management fees and similar payments through a related person resident in another Canadian jurisdiction, rather than paying them directly to a non-resident. Where a payment which would give rise to an add-back if made to a non-resident, has been made by a taxpayer to a related person resident in Canada outside Ontario, and the recipient of the payment is related to a non-resident controlling the taxpayer, the taxpayer will be required to include 5/14ths of the payment in its income. This applies for payments made after May 13, 1982.

#### CAPITAL TAX

##### TAXABLE PAID-UP CAPITAL - BANKS, LOAN AND TRUST CORPORATIONS - section 53

###### *o Changes in terminology - banks*

Subsection 53(2) specifies items for inclusion in taxable paid-up capital for a bank. This subsection is being revised to render the terminology consistent with the Bank Act, 1980.

###### *c Equity method of accounting - banks, loan and trust corporations*

Banks, loan and trust corporations which report their investments in other corporations using the equity method of accounting, will be required to exclude the accumulated earnings and losses of those corporations, and include all dividends received from those corporations in calculating their taxable paid-up capital.

These changes are applicable for taxation years ending after May 13, 1982.

##### INVESTS - CORPORATE BENEFICIARIES - section 53

Section 53 will be amended to clarify that a corporate beneficiary of a trust must include in paid-up capital, a portion of any indebtedness of the trust secured by assets of the trust. This portion shall be representative of the corporation's beneficial interest in the trust.

##### TOTAL ASSETS - INVESTMENT IN A PARTNERSHIP - section 54

"Total assets" are utilized in calculating any investment allowance to which a corporation may be entitled. A provision will be added to clarify that, where a corporation has an investment in a partnership, it must add its share of the partnership assets to its total assets and deduct the amount shown in its financial statements as investment in the partnership. The share of the partnership assets added to total assets is the corporation's profit-sharing percentage applied to such assets.



*ANY OTHER SURPLUS - EXTENSION OF MEANING - section 53 & 54*

"Any other surplus" is included in paid-up capital under the following clauses: 53(1)(b) (ordinary corporations); 53(2)(c) (banks), and; 53(3)(b) (loan and trust corporations).

The meaning will be clarified. Any amount that must be included in computing income for the purposes of Part II of the Corporations Tax Act must also be in "any other surplus" except for that portion already included in the corporation's income shown in its financial statements. However, this rule will not apply to the following:

- o The 5/14ths add-back in respect of management fees and similar payments under subsections 12(6) or (6a).
- o The following income items under provisions in the Income Tax Act (Canada) made applicable for Ontario purposes:
  - o Crown royalties in respect of an oil or gas well or mineral resource (paragraph 12(1)(o)).
  - o Appropriations of property or loans to shareholders (subsections 15(1) or (2)).
  - o Imputed interest on certain loans to non-residents (subsection 17(1)).
  - o Any recapture of scientific research allowance upon disposition of a research property (subsection 37.1(3)).

*OTHER ITEMS*

*TAX INSTALMENTS - section 70*

*o Additional instalment option*

Corporations will be able to calculate their tax instalments in one of four ways, whichever is the least:

- o 1/12 of current year's estimated tax
- o 1/12 of previous year's tax
- o 1/12 of tax two years ago for first two months and 1/10 of difference between the previous year's tax and amount already paid for the next 10 months
- o 1/12 of tax two years ago for first two months and 1/10 of difference between the estimate of the current year's tax and amount already paid for the next 10 months.

The last method is new and allows the corporation to use the current year's tax where less than the previous year's tax.

*o Taxation year ends not coinciding with calendar month end*

The Corporations Tax Act will be amended to clarify the due dates for monthly tax instalments and the balance of tax payable in situations where a corporation's taxation year does not end on the last day of a calendar month. In such cases, payments will be due on the day of the month corresponding to the day of the month on which the previous taxation year ended.

Example: A corporation's 1982 taxation year ended April 15, 1982. The corporation is not eligible for the small business deduction under section 125 of the Income Tax Act (Canada).

The corporation's monthly instalments for the ensuing taxation year are due on May 15, 1982; June 15, 1982 and so on. Assuming a 1983 taxation year of 12 months duration, any balance of tax payable for 1983 is due June 15, 1983.



Ministry  
of Revenue

George Ashe  
Minister

T. M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

DEPOSITORY LIBRARY MATERIAL

Number 25-82

May 13, 1982

Les bulletins sont disponibles en français sur demande à la Direction de l'imposition des compagnies, Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1160

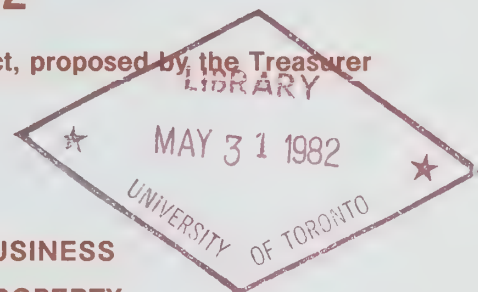
Gouvernement  
Publications

## ONTARIO BUDGET 1982

This Bulletin describes the changes to the Corporations Tax Act, proposed by the Treasurer of Ontario in the 1982 Budget released on May 13, 1982.

### HIGHLIGHTS

- TWO YEAR INCOME TAX EXEMPTION FOR SMALL BUSINESS
- SMALL BUSINESS TAX CREDIT ON DEPRECIABLE PROPERTY
- OTHER CHANGES AFFECTING SMALL BUSINESS
- CONTINUANCE OF CAPITAL GAINS AND OTHER RESERVES
- FULL CAPITAL COST ALLOWANCE IN YEAR OF ASSET ACQUISITION
- INCOME FROM IRON ORE PROCESSING



#### *TWO YEAR INCOME TAX EXEMPTION FOR SMALL BUSINESS - sections 33, 75 and 76*

Ontario corporation income tax will be suspended for two years on income eligible for the federal small business deduction under subsection 125(1) of the Income Tax Act (Canada). This change applies to two taxation years ending after May 13, 1982 and before May 14, 1984. The exemption will not apply to income eligible under subsection 125(1.1), that is, the income of professional, personal service and management corporations.

#### *o Refunds*

Qualifying corporations may apply for a refund of instalments paid on account for the first taxation year ending after May 13, 1982 in excess of their revised tax for that year. Credit interest will not be paid on any such instalments requested and refunded prior to filing the return for that year. However, credit interest will be paid in the normal manner on any refund made after filing the return for that year.



Refunds may be requested by a letter containing the following:

Corporation name  
Account number  
Taxation year affected (month/year)  
List of instalments paid  
Amount to be held by branch for year end tax liability (including capital tax)  
Amount of refund requested  
Telephone number  
Contact name

To avoid delay in processing refunds, complete information would be appreciated.

Mail to:

Ontario Ministry of Revenue  
Small Business Tax Exemption  
Parliament Buildings  
Queen's Park  
Toronto, Ontario  
M7A 2E9

Telephone enquiries may be directed to:

(416) 963-1546

#### *o Application of losses*

The rules regarding application of losses continue to apply. For example, losses from taxation years before or after the exempt period of the program will be applied against income in taxation years ending in the period in the normal manner. Losses from taxation years ending in the period must be applied, in the usual manner, against income from taxation years ending both in the period or before or after the period as the case may be.

#### *o Instalments*

Tax otherwise payable during the exempt period should be taken into account in calculating the tax instalments payable in the first and second taxation years following the two year exempt period.

#### *SMALL BUSINESS TAX CREDIT ON DEPRECIABLE PROPERTY - section 35*

This program was established for a two year period (April 22, 1980 to April 23, 1982) and is not being extended.

*OTHER CHANGES AFFECTING SMALL BUSINESS - section 33*

The federal Budget of November 12, 1981 proposed certain changes directed specifically at small business. These include increased annual and total business limits of \$200,000 and \$1,000,000 respectively for computing the small business deduction under section 125 of the Income Tax Act (Canada) for 1982 and subsequent taxation years.

Ontario will parallel this change with the same application dates. The business limits change will increase availability of the existing small business incentive tax credit and enhance the newly-proposed Small Business Tax Exemption program for qualifying corporations.

*CONTINUANCE OF CAPITAL GAINS AND OTHER RESERVES - sections 12, 13 and 16*

Ontario has decided not to parallel the federal November 12, 1981 Budget proposal to terminate provisions for reserves under paragraph 20(1)(n) (deferred profits), subparagraph 40(1)(a)(iii) (capital gains) or section 64 (resource property) of the Income Tax Act (Canada). Reserves previously available for Ontario purposes continue to apply. However, technical amendments will be required in the Corporations Tax Act to render inapplicable any changes to sections of the Income Tax Act (Canada) presently adopted by Ontario.

*FULL CAPITAL COST ALLOWANCE IN YEAR OF ASSET ACQUISITION - section 12 and Regulation section 201*

Ontario will not adopt the federal proposal to limit C.C.A. to one-half the normal rate in the year of acquisition. The rates presently applicable will continue in the first year an asset is acquired.

When filing Ontario CT23 tax returns, corporations should continue to use the same asset classifications used federally. However, the amount deducted in the year of acquisition may differ.

*INCOME FROM IRON ORE PROCESSING - sections 17 and 34, Regulation sections 101 and 103*

Ontario will continue its current policy for determining income from iron ore processing which qualifies for depletion allowance and manufacturing and processing profits credit. Ontario rules will not be affected by the federal policy proposal set out in Resolution 108 to the federal Budget of November 12, 1981. It is expected to amend the federal definition of "manufacturing or processing" to include any iron ore processing beyond the primary pellet stage or its equivalent.







Ministry  
of Revenue

George Ashe  
Minister

T. M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

Number 26-82

May 13, 1982

Les bulletins sont disponibles en français sur demande à la Direction de l'imposition des compagnies, Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1160

This Bulletin summarizes administrative and technical changes to the Corporations Tax Act.

## TECHNICAL CHANGES

- INCOME TAX

- PAYMENTS TO NON-RESIDENTS

- CAPITAL TAX

- TAXABLE PAID-UP CAPITAL — BANKS, LOAN AND TRUST CORPORATIONS
  - TRUSTS — CORPORATE BENEFICIARIES
  - TOTAL ASSETS — INVESTMENT IN A PARTNERSHIP
  - ANY OTHER SURPLUS — EXTENSION OF MEANING

- OTHER ITEMS

- TAX INSTALMENTS

### INCOME TAX

#### PAYMENTS TO NON-RESIDENTS - subsections 12(6), (6a)

Five-fourteenths (5/14ths) of management fees, rents, royalties and similar payments to non-residents in non-arm's length transactions subject to federal withholding tax are added to income for Ontario purposes under subsection 12(6). This add-back is not required for rents and royalties where the non-resident recipient is liable for Ontario taxes on sale or rental of real property under clauses 2(2)(b) or 2(3)(b). This provision will be amended to clarify that the exception applies only where the non-resident recipient has included the payment in computing its taxable income earned in Canada.

A new provision will be added to prevent corporations avoiding the 5/14ths add-back by channelling management fees and similar payments through a related person resident in another Canadian jurisdiction, rather than paying them directly to a non-resident. Where a payment which would give rise to an add-back if made to a non-resident, has been made by a taxpayer to a related person resident in Canada outside Ontario, and the recipient of the payment is related to a non-resident controlling the taxpayer, the taxpayer will be required to include 5/14ths of the payment in its income. This applies for payments made after May 13, 1982.

#### *CAPITAL TAX*

##### *TAXABLE PAID-UP CAPITAL - BANKS, LOAN AND TRUST CORPORATIONS - section 53*

###### *o Changes in terminology - banks*

Subsection 53(2) specifies items for inclusion in taxable paid-up capital for a bank. This subsection is being revised to render the terminology consistent with the Bank Act, 1980.

###### *o Equity method of accounting - banks, loan and trust corporations*

Banks, loan and trust corporations which report their investments in other corporations using the equity method of accounting, will be required to exclude the accumulated earnings and losses of those corporations, and include all dividends received from those corporations in calculating their taxable paid-up capital.

These changes are applicable for taxation years ending after May 13, 1982.

##### *TRUSTS - CORPORATE BENEFICIARIES - section 53*

Section 53 will be amended to clarify that a corporate beneficiary of a trust must include in paid-up capital, a portion of any indebtedness of the trust secured by assets of the trust. This portion shall be representative of the corporation's beneficial interest in the trust.

##### *TOTAL ASSETS - INVESTMENT IN A PARTNERSHIP - section 54*

"Total assets" are utilized in calculating any investment allowance to which a corporation may be entitled. A provision will be added to clarify that, where a corporation has an investment in a partnership, it must add its share of the partnership assets to its total assets and deduct the amount shown in its financial statements as investment in the partnership. The share of the partnership assets added to total assets is the corporation's profit-sharing percentage applied to such assets.

*ANY OTHER SURPLUS - EXTENSION OF MEANING - section 53 & 54*

"Any other surplus" is included in paid-up capital under the following clauses: 53(1)(b) (ordinary corporations); 53(2)(c) (banks), and; 53(3)(b) (loan and trust corporations).

The meaning will be clarified. Any amount that must be included in computing income for the purposes of Part II of the Corporations Tax Act must also be in "any other surplus" except for that portion already included in the corporation's income shown in its financial statements. However, this rule will not apply to the following:

- o The 5/14ths add-back in respect of management fees and similar payments under subsections 12(6) or (6a).
- o The following income items under provisions in the Income Tax Act (Canada) made applicable for Ontario purposes:
  - o Crown royalties in respect of an oil or gas well or mineral resource (paragraph 12(1)(o)).
  - o Appropriations of property or loans to shareholders (subsections 15(1) or (2)).
  - o Imputed interest on certain loans to non-residents (subsection 17(1)).
  - o Any recapture of scientific research allowance upon disposition of a research property (subsection 37.1(3)).

*OTHER ITEMS*

*TAX INSTALMENTS - section 70*

*o Additional instalment option*

Corporations will be able to calculate their tax instalments in one of four ways, whichever is the least:

- o 1/12 of current year's estimated tax
- o 1/12 of previous year's tax
- o 1/12 of tax two years ago for first two months and 1/10 of difference between the previous year's tax and amount already paid for the next 10 months
- o 1/12 of tax two years ago for first two months and 1/10 of difference between the estimate of the current year's tax and amount already paid for the next 10 months.

The last method is new and allows the corporation to use the current year's tax where less than the previous year's tax.



*o Taxation year ends not coinciding with calendar month end*

The Corporations Tax Act will be amended to clarify the due dates for monthly tax instalments and the balance of tax payable in situations where a corporation's taxation year does not end on the last day of a calendar month. In such cases, payments will be due on the day of the month corresponding to the day of the month on which the previous taxation year ended.

Example: A corporation's 1982 taxation year ended April 15, 1982. The corporation is not eligible for the small business deduction under section 125 of the Income Tax Act (Canada).

The corporation's monthly instalments for the ensuing taxation year are due on May 15, 1982; June 15, 1982 and so on. Assuming a 1983 taxation year of 12 months duration, any balance of tax payable for 1983 is due June 15, 1983.



Ontario

Ministry  
of Revenue

Corporations  
Tax Branch

# Information Bulletin

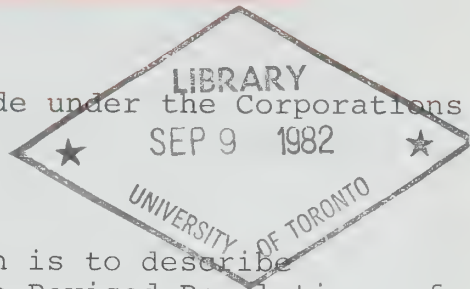
George Ashe  
Minister

T.M. Russell  
Deputy Minister

Number 24-82 June 30, 1982

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1160

SUBJECT: Amendment of Regulations made under the Corporations Tax Act.



## INTRODUCTION

The purpose of this bulletin is to describe amendments to Regulation 191/80 of the Revised Regulations of Ontario made under the Corporations Tax Act which implement the changes proposed in the May 1981 Budget and certain other changes. The amending regulation (number 254/82) was filed with the Registrar of Regulations on April 16, 1982 and published in the May 1, 1982 edition of the Ontario Gazette.

It should be noted that all section references in this bulletin are to sections of Regulation 191/80 (R.R.O. 1980), formed by the consolidation of previous Regulation 350/73 made under The Corporations Tax Act, 1972 and subsequent amendments. The Revised Regulations of Ontario were proclaimed in force as of November 16, 1981. (See cross-reference table on last page of bulletin).

## DEPLETION ALLOWANCES - OIL AND GAS (Regulation sections 101 to 112)

Ontario has paralleled the federal changes to depletion allowances as they apply to oil and gas companies effective January 1, 1981. These changes were described in Information Bulletin Number 20-81 issued June 1, 1981.

## ALLOCATION OF INCOME AND TAXABLE PAID-UP CAPITAL (Regulation sections 300 to 330)

Sections 300 to 330 of the regulations contain rules for allocating taxable income and taxable paid-up capital of corporations with operations outside Ontario. These rules have been amended to parallel similar changes made to clarify the federal allocation rules.

- o Where one of the factors in the allocation formula (salaries and wages or gross revenue) is "nil", allocation must be based on the single factor present.
- o Allocation must be made only to jurisdictions in which the corporation has a permanent establishment.
- o Bus and truck operators must allocate only to jurisdictions where there is a permanent establishment and the allocation formula must include only distance driven in each of those jurisdictions.
- o Other minor changes have been made to clarify the wording of the rules.
- o These changes apply for taxation years commencing after 1980.

*TAX INSTALMENTS - SHORT TAXATION YEARS AND CORPORATIONS  
FORMED BY AMALGAMATION (Regulation section 509)*

Section 70 of the Corporations Tax Act sets out rules for calculating monthly corporations tax instalments. (See Information Bulletin Number 19-80 issued September, 1980 and Information Bulletin Number 26-82 for more details).

New section 509 of the regulations adopts some of the changes made to the federal tax instalments regulations. These are applicable to taxation years commencing after September 30, 1981.

- o Where the instalments are based on a taxation year of less than 365 days, the tax payable for that year must be grossed up to a full 365 day year.
- o Where a corporation has been newly formed by way of an amalgamation it is required to pay tax instalments beginning with its first taxation year. In calculating its instalments, the aggregate tax paid in the last taxation year by the predecessor corporations is treated as the new corporation's previous year's tax. The aggregate tax of the next to last taxation year of the predecessors is treated as the new corporation's second previous year's tax. These are also grossed-up where the predecessor's taxation year is less than 365 days.

It should be noted that the new regulations do not pick up the federal changes which increase instalments when assets have been transferred to a corporation under section 85 of the federal Act or when a subsidiary is wound-up under section 88 of that Act.



DEDUCTIBILITY OF TAXES IMPOSED BY OTHER JURISDICTIONS  
(Regulation sections 501 and 502)

The imposition of an income tax by the province of Alberta necessitates the addition of this tax to the list (Reg. 501) of taxes not deductible in computing income.

The newly imposed Saskatchewan capital tax is added to the list (Reg. 502) of taxes which are deductible in computing income.

TAXABLE CANADIAN PROPERTY SITUATED IN ONTARIO  
(Regulation 505)

A corporation incorporated outside Canada is liable for Ontario tax under clause 2(2)(c) or 2(3)(c) of the Corporations Tax Act if it disposes of "taxable Canadian property situated in Ontario" as prescribed by regulation. The definition of this term in Regulation 505 has been clarified to include the shares of Canadian federally incorporated companies having central management and control located in Ontario. This change is applicable for taxation years ending after 1980.

NON-RESIDENT ENTERTAINMENT CORPORATIONS  
(Regulation 506 revoked)

As announced in Information Bulletin Number 20-81 of June 1, 1981, non-resident entertainment corporations are not required to withhold and remit taxes in respect of performances given after May 19, 1981. Previous regulation 506 relating to the timing of remittance payments and the filing of quarterly information reports has therefore been revoked.

SMALL BUSINESS TAX CREDIT ON DEPRECIABLE PROPERTY -  
GOVERNMENT ASSISTANCE (Regulation 508)

Generally, a corporation is not required to deduct government assistance (e.g. tax credit, grant, subsidy) from the cost of depreciable assets purchased in determining the amount of the small business tax credit on depreciable property under section 35 of the Corporations Tax Act. The wording of regulation 508 has been clarified to render similar treatment where depreciable assets have been acquired by way of a lease with an option to purchase the property at an agreed price. This technical amendment is applicable with respect to assets acquired after April 22, 1980 and before April 23, 1982.

### CROSS REFERENCES

The following table provides a cross-reference of the section numbers in Regulation 191/80, R.R.O., 1980, (as amended) to those of former Ontario Regulation 350/73.

	<u>Reg.</u> <u>191/80</u>	<u>Reg.</u> <u>350/73</u>	<u>Reg.</u> <u>191/80</u>	<u>Reg.</u> <u>350/73</u>	<u>Reg.</u> <u>191/80</u>	<u>Reg.</u> <u>350/73</u>
Section	101	201	307	407	325	424
	102	202	308	408	326	425
	103	203	309	409	327	426
	104	204	310	410	328	427
	106	206	311	411	329	428
	107	207	312	412	330	429
	108	208	313	413	401	601
	109	209	314	413a	501	701
	110	210	315	414	502	702
	111	-	316	415	503	706
	112	-	317	416	504	714
	201	301	318	417	505	717
	301	401	319	418	507	729
	302	402	320	419	508	730
	303	403	321	420	509	-
	304	404	322	421	601	801
	305	405	323	422	602	802
	306	406	324	423	603	803

### TIME LIMIT FOR FILING NOTICE OF OBJECTION

The Corporations Tax Act gives a taxpayer the right to protest an assessment. If you want to dispute the amount, the reason for the assessment or reassessment or parts of either, there are procedures for submitting a Notice of Objection. Your objection has to be filed within 90 days from the date the assessment or reassessment notice was mailed to you. The Notice of Objection must be completed in duplicate and sent by registered mail to the Minister.

A taxpayer who fails to file a Notice of Objection within the 90 day limit has no legal recourse. If the Notice of Objection is filed within the time limit, the assessment or reassessment will be considered by the Tax Appeals Branch.

Provisions of the Corporations Tax Act governing these procedures are contained in subsections 77(1) to (5); section 84, and; subsections 85(1) to (3). Please refer to these sections when filing an Objection.

If you disagree with the decision of the Tax Appeals Branch, you may appeal to the Supreme Court of Ontario within 90 days from the date the notice was mailed to you.



Ontario

Ministry  
of  
Revenue

George Ashe  
Minister

T.M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

Number 23-82 January, 1982

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1160

SUBJECT: Interest rate increased to 15%

INTEREST RATE (S. 72 and 75, Regulation S. 714)

The rate of interest payable on unpaid taxes and allowed on overpayments of tax is increased from 12% to 15%.

EFFECTIVE DATE

This change will take effect from February 1, 1982. The current rate of 12% which is effective from October 1, 1980 will apply for the period up to January 31, 1982. The earlier rates of 6% and 9% will continue to apply for periods up to September 30, 1980.

IMPACT ON TAXPAYER

Most taxpayers pay their taxes on time so will not feel this change. Those who have overpaid will begin to receive more reasonable compensation for funds held by the Ministry. Those who fail to meet the due dates specified in the Corporations Tax Act will be liable for the additional interest. They should, therefore, try to make sure their taxes are paid on time in the proper amount.

INFORMATION AVAILABLE

Taxpayers affected by the change in interest rates may wish to contact the Corporations Tax Branch at the following address or telephone number:

Accounts Correspondence Section  
12th Floor, 77 Bloor Street West  
Toronto, Ontario

(416) 965-2948

Taxpayers may also contact the Ministry of Revenue's multilingual Information Centre free of charge from anywhere in Ontario:



- In Metro Toronto - dial 965-8470
- In area code 807 - ask the operator for Zenith  
8-2000
- In all other areas - dial 1-800-268-7121



Ministry  
of  
Revenue

George Ashe  
Minister

T.M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

Number 22-82 January, 1982

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, Queen's Park, Toronto, Ontario M7A 1Y1 Téléphone: 965-1160

REVISED STATUTES OF ONTARIO 1980  
CORPORATIONS TAX ACT

DEPOSITORY LIBRARY MATERIAL

## INTRODUCTION

The Revised Statutes of Ontario consolidate and revise all the statutes of the Province. Such consolidation takes place every 10 years. The previous enactments disappear and are replaced by those in the Revised Statutes. The Revised Statutes of Ontario 1980 (R.S.O. 1980) come into force on August 1, 1980.

## PRINCIPAL CHANGES

The principal changes made in the current revision to the Corporations Tax Act are these:

- The definite article "The" is no longer part of the title of the statute.
- The year of enactment is no longer a part of the proper title of the Act. The title is now as shown in the 1980 revision.
- Ontario has partly adopted the Federal system of references to subsections, clauses, subclauses, etc. Instead of referring to clause a of subsection 1 of Section 1, the revision now refers to clause 1(1)(a). The Province is still retaining the reference to clauses, subclauses and sub-subclauses rather than the federal reference to paragraphs, subparagraphs and clauses.
- The provisions of the consolidated statutes have been consecutively numbered or lettered, as the case may be, as part of the consolidation, and accordingly subsections that were numbered 2a to indicate that the subsection fell between subsections 2 and 3 are eliminated and given a sequential number.

- As part of the revision, some changes have been made in the text of the statute, and outdated provisions have been dropped.
- Consolidation of the Regulations, similar to the Revised Statutes of Ontario, 1980, is taking place.

#### CROSS REFERENCES

The following table provides a cross-reference of the section numbers in the Corporations Tax Act, R.S.O. 1980, to the corresponding sections in The Corporations Tax Act, 1972.

*Cross Reference Table*  
*The Corporations Tax Act, R.S.O. 1980,*  
*to The Corporations Tax Act, 1972*

	R.S.O., 1980	C.T.A., 1972	R.S.O., 1980	C.T.A., 1972	R.S.O., 1980	C.T.A., 1972
Section	1	1	35	36b	69	147
	2	2	36	37	70	148
	3	3	37	38	71	148a
	4	6	38	39	72	149
	5	7	39	40	73	150
	6	8	40	41	74	151
	7	9	41	42	75	152
	8	10	42	43	76	153
	9	12	43	44	77	154
	10	13	44	45	78	155
	11	13a	45	46	79	156
	12	14	46	47	80	157
	13	15	47	48	81	158
	14	16	48	48a	82	159
	15	17	49	49	83	160
	16	18	50	123	84	160a
	17	19	51	124	85	160b
	18	20	52	125	86	161
	19	21	53	126	87	162
	20	22	54	127	88	163
	21	23	55	128	89	164
	22	24	56	129	90	165
	23	25	57	130	91	166
	24	26	58	131	92	167
	25	27	59	132	93	168
	26	28	60	133	94	169
	27	29	61	133a	95	170
	28	30	62	134	96	171
	29	32	63	135	97	172
	30	33	64	136	98	173
	31	34	65	137	99	174
	32	35	66	143	100	175
	33	36	67	145	101	176
	34	36a	68	146	102	177



COPIES OF ACT

When consolidation of the statutes has been completed and printed, copies of the Corporations Tax Act together with the Regulations may be obtained for a fee from

Ontario Government Bookstore  
880 Bay Street  
Toronto, Ontario

or by writing directly to

Ministry of Government Services  
Publications Centre, Mail Order  
5th Floor  
880 Bay Street  
Toronto, Ontario  
M7A 1N8.





Ministry  
of Revenue

George Ashe  
Minister

T M Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

Number 27-83 February, 1983

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, CP 622, 33 King Street West, Oshawa, Ontario L1H 8H6  
Téléphone: Oshawa (416) 433-6500 ou Toronto 965-1160 poste 6500

## RELOCATION TO OSHAWA

The Corporations Tax Branch moves on the 21st of February, 1983, to the 4th Floor of the new head office building of the Ministry of Revenue at 33 King Street West, Oshawa. All sections of the Branch are moving at this time to be operational at the new location from that date. The full postal address in Oshawa and local telephone numbers for various sections are set out on page 2.

The general enquiry number in Oshawa is 433-6500. Corporations and their representatives may also use the Toronto general enquiry number 965-1160. Calls to this number will reach the central switchboard of the Ministry to be redirected to the appropriate number within the Branch.



ADDRESS: Ministry of Revenue  
Corporations Tax Branch  
P.O. Box 622  
33 King Street West  
Oshawa, Ontario  
L1H 8H6

<u>SECTION</u>	<u>PHONE NUMBER</u> (area code 416)	<u>MANAGER</u>
TAX ROLL	433-6661	W. Holloway
Cancellations	433-6662	R. Peoples
New Companies	433-6663	J. Peirce
TAX RETURN CENTRE (Enquiries re Filing)	433-6691	P. Van Brugge
ACCOUNTS	433-6706	K. Bone
Accounts Enquiries	433-6707	J. Lindsay
COMPLIANCE (Collections & Default)	433-6677	P. Rust
DESK AUDIT	433-6531	C. Amodeo
Audit (General Enquiries)	433-6536	M. Kalm
FIELD AUDIT	433-6514	L. Heller
	433-6504	K. Siddiqi

SENIOR OFFICERS

DIRECTOR	433-6495	C. H. Townsend
SENIOR MANAGER, OPERATIONS	433-6496	R. D. McAuley
SENIOR MANAGER, AUDIT	433-6503	R. E. Hedmann
SENIOR MANAGER, PLANNING	433-6592	D. P. Edwards
MANAGER, OPERATIONS	433-6497	J. Kabot



Ministry  
of Revenue

Corporations  
Tax Branch

# Information Bulletin

George Ashe  
Minister

T.M. Russell  
Deputy Minister

DEPOSITORY LIBRARY MATERIAL

Number 28-83 March, 1983

Government  
Publications

CAZEN  
RU70  
-351

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, CP 622, 33 King Street West, Oshawa, Ontario L1H 8H6  
Téléphone: Oshawa (416) 433-6500 ou Toronto 965-1160 poste 6500

SUBJECT: Interest rate decreased to 12%.

## INTEREST RATE (S. 72 and 75, Regulation S. 504)

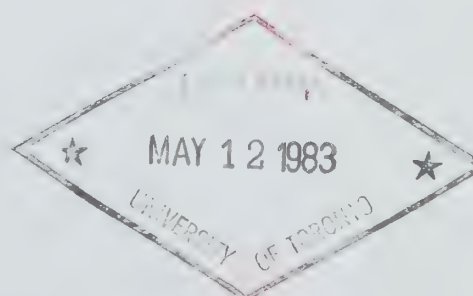
The rate of interest payable on unpaid taxes and allowed on overpayments of tax is decreased from 15% to 12%.

## EFFECTIVE DATE

This change will take effect from April 1, 1983. The current rate of 15% which is effective from February 1, 1982 will apply for the period up to March 31, 1983. The earlier 12% rate and the earlier rates of 6% and 9% will continue to apply for periods up to January 31, 1982.

## IMPACT ON TAXPAYER

The new interest rate recognizes the general decline in market rates in recent months. Most taxpayers pay their taxes on time so will not be affected by this change. Those who fail to meet the due dates specified in the Corporations Tax Act will be liable for interest calculated at the new rate. Similarly, those who have overpaid will receive compensation at the new rate.



INFORMATION AVAILABLE

Taxpayers affected by the change in interest rates may wish to contact the Corporations Tax Branch at the following address or telephone number:

Corporations Tax Branch  
Accounts Enquiries  
P.O. Box 622  
4th Floor, 33 King Street West  
Oshawa, Ontario L1H 8H6 (416)-433-6707

Taxpayers may also contact the Ministry of Revenue's general enquiry number in Oshawa: 433-6500 or use the Toronto general enquiry number: 965-1160.

INTEREST ON ACCOUNTS PAYABLE TO SUPPLIERS

Those firms which are suppliers of goods or services to Ontario Government ministries are advised that, effective April 1, 1983, the rate of interest payable by the government on accounts overdue beyond 30 days is reduced to 12%, from the present 15% per annum.





Ontario

Ministry  
of Revenue

George Ashe  
Minister

T.M. Russell  
Deputy Minister

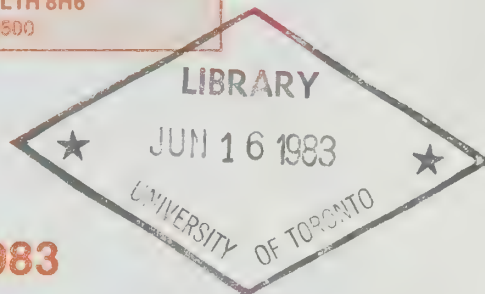
Corporations  
Tax Branch

# Information Bulletin

Number 29-83

May 10, 1983

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, CP 622, 33 King Street West, Oshawa, Ontario L1H 8H6  
Téléphone: Oshawa (416) 433-6500 ou Toronto 965-1160 poste 6500



## ONTARIO BUDGET 1983

This Bulletin describes the impact on the Corporations Tax Act of the proposals of the Treasurer of Ontario contained in the 1983 Budget released on May 10, 1983. Technical changes to the Corporations Tax Act included in the Bill to implement the Budget changes will be described in a later bulletin.

## HIGHLIGHTS

### • INCOME TAX

- EXTENSION OF INCOME TAX EXEMPTION FOR SMALL BUSINESS
- INCOME TAX RATE INCREASE
- FEDERAL LOSS CARRY OVER PROVISIONS TO BE PARALLELED
- FEDERAL TREATMENT OF PERSONAL SERVICES BUSINESSES PARALLELED

### • CAPITAL TAX

- TEMPORARY CAPITAL TAX RELIEF FOR "LOSS" CORPORATIONS

### INCOME TAX

EXTENSION OF INCOME TAX EXEMPTION FOR SMALL BUSINESS - sections 33 and 70

The two-year exemption from Ontario income tax for corporations eligible for the federal small business deduction under section 125(1) of the Income Tax Act (Canada) will be extended for one year. The original two-year program resulted from the implementation of 1982 Budget proposals and provided an exemption for each of two taxation years ending after May 13, 1982 and before May 14, 1984. The 1983 Budget proposes to extend the exemption period for one year to May 13, 1985.

Corporations that have claimed the federal small business deduction under section 125(1) will be entitled to an Ontario income tax credit that fully offsets the Ontario income tax otherwise payable on the income amount eligible for the federal small business deduction under section 125(1). This will apply for each of three taxation years ending after May 13, 1982 and before May 14, 1985.

In determining instalment requirements for the first and second taxation years after the three year "holiday" period, corporations must base their instalments on tax otherwise payable as if they were entitled only to the 4% or 5% small business tax credit (see comments below on increase from 4% to 5%) that would have been available in the absence of the small business tax exemption program.

INCOME TAX RATE INCREASE - sections 12, 30, 31, 32, 33 and 40

The general rate of corporate income tax will be increased from 14% to 15% effective May 11, 1983. For taxation years including May 10, 1983, the tax increase will be prorated on the basis of the number of days after that date.

Corporations carrying on "non-qualifying business" such as certain professional practices or providing managerial or administrative services to significant shareholders and entitled to a federal small business deduction under section 125(1.1) of the Income Tax Act (Canada), will be allowed an increased small business tax credit of 5% (previously 4%). This change is consequential to the change in the basic rate of tax.

FEDERAL LOSS CARRY OVER PROVISIONS TO BE PARALLELED - section 27

The changes proposed in the federal budget of April 19, 1983 to provide extended loss carry over rules will be paralleled for Ontario corporations tax purposes. Highlights of these proposals are as follows:

- o Non-capital losses be carried back three years and forward seven years (ten years forward for losses from farming or fishing) beginning with 1983 losses. This will be phased-in differently for different corporations.
- o Corporations eligible for the federal small business deduction under section 125 of the Income Tax Act (Canada) will be allowed the full three years back and seven years forward (ten years forward for losses from farming or fishing) commencing with 1983 losses.
- o Other corporations will be allowed only a two year carry-back for 1983 losses.

- o All corporations will receive the full three year back and seven year forward treatment (ten years forward for losses from farming or fishing) for non-capital losses arising in 1984 and subsequent taxation years.
- o Net capital losses arising in 1984 taxation years may be used to offset net taxable capital gains in the two preceding years. Net capital losses arising in 1985 and subsequent taxation years may be carried back three years. An indefinite carry forward period remains for net-capital losses.
- o Enhanced carry-forward, carry-back rules for restricted farm losses arising in 1983 and subsequent taxation years will be phased-in as outlined above for non-capital losses from farming or fishing.

FEDERAL TREATMENT OF PERSONAL SERVICES BUSINESSES PARALLELED  
- sections 1, 12 and 33

Federal Bill C-139 which was given Royal Assent on March 30, 1983 made certain changes for corporations considered to be carrying on "personal services business". In general, a personal services business is a business carried on by a corporation formed by the incorporation of an individual (the "incorporated employee") who would otherwise be an employee of the entity to whom the services are provided. Where such arrangements exist, the federal changes generally provide for:

- o Application of the full federal corporate rate of tax (46%) on the income derived from a personal services business. The small business deductions of sections 125(1) and (1.1) do not apply in respect of such income.
- o Limitation of the deductions allowable in arriving at the income from the personal services business. Generally, only salaries or wages and related benefits of the incorporated employee are deductible to the personal services corporation.

Ontario is paralleling the above federal changes for corporations providing such personal services effective for taxation years commencing after November 12, 1981. Income from a personal services business will be subject to the new basic income tax rate of 15% after May 10, 1983 as described above. The narrowing of deductions permissible in computing income from a personal services business as provided in section 18(1)(p) of the Income Tax Act (Canada) will also apply for Ontario purposes.

CAPITAL TAX

TEMPORARY CAPITAL TAX RELIEF FOR "LOSS" CORPORATIONS - section 61

In lieu of capital tax under present rules, a "flat tax" of \$100 will apply to corporations with taxable paid-up



capital between \$1,000,000 and \$2,000,000 if, in the taxation year, the corporation has zero income or a loss for Ontario tax purposes before making deductions for the following:

- o Capital cost allowances or terminal losses
- o Deductions in respect of cumulative eligible capital
- o Depletion allowances
- o Resource allowances
- o Inventory allowance
- o Charitable donations, gifts to Her Majesty and gifts of Canadian cultural property
- o Losses of other years
- o Taxable dividends received or dividends received from foreign affiliates.

This extension of the flat tax to "loss" corporations applies for each of two taxation years ending after May 10, 1983 and before May 11, 1985.

Care must be taken in applying the relief provision for loss corporations where the corporation is associated with other corporations or is a member of a partnership and is related to any other partnership member. In such cases, the aggregate taxable paid-up capital of the group of associated corporations must be compared to \$2,000,000 to determine whether a particular "loss" corporation within the group qualifies for the flat tax.

The following chart sets out the capital tax payable by any particular corporate member of an associated group taking into account the possibility that the flat tax may apply to that member if in a "loss" situation.

CAPITAL TAX PAYABLE BY CORPORATE MEMBER OF ASSOCIATED GROUP

		AGGREGATE TPUC OF ASSOCIATED GROUP		
		Less than \$1M	Between \$1M and \$2M	Greater than \$2M
Characteristics of Particular Corporation	"Loss"	\$50 if the corporation's TPUC is less than \$0.1M. \$100 in other cases.	\$50 if the corporation's TPUC is less than \$0.1M. \$100 in other cases.	0.3% x TPUC of the corporation.
	"Profit"	\$50 if the corporation's TPUC is less than \$0.1M. \$100 in other cases.	0.3% x TPUC of the corporation.	0.3% x TPUC of the corporation.

M = \$1,000,000

TPUC = Taxable Paid-up Capital



Ministry  
of Revenue

Corporations  
Tax Branch

# Information Bulletin

George Ashe  
Minister

T.M. Russell  
Deputy Minister

Number 30-83

June, 1983

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, CP 622, 33 King Street West, Oshawa, Ontario L1H 8H6  
Téléphone: Oshawa (416) 433-6500 ou Toronto 965-1160 poste 6500

This Bulletin summarizes technical changes to the Corporations Tax Act resulting from Bill 38 which received Royal Assent on June 6, 1983 and is in addition to the 1983 Budget changes described in earlier Information Bulletin Number 29-83 of May 10, 1983.

## TECHNICAL CHANGES

- **INCOME TAX**
  - Continuance of Capital Gains and Other Reserves
  - Increase in Tax Rate — Consequential Changes
- **CAPITAL TAX**
  - Unpaid Expense Accruals Included in Paid-up Capital
  - Loans and Advances From/To Governments
  - Clarification — "Other Surplus", "Cost of Investments", "Total Assets"
  - Investment Allowance — Loans and Advances to Exempt Corporations
  - Investment Allowance — Loans and Advances to Foreign Banks and Trust Corporations
- **OTHER ITEMS**
  - Refunds of Tax Instalments
  - Loss Carry-Backs — Amended Returns, Interest Calculations
  - Semi-Annual Revision of Interest Rates
  - Interest on Deficient Instalments
  - Change in Fiscal Periods



## INCOME TAX

CONTINUANCE OF CAPITAL GAINS AND OTHER RESERVES - sections 13(1a), 16(1) and (1a)

Federal Bill C-139 given Royal Assent on March 30, 1983 terminated the reserves for resource property dispositions and modified the reserves for deferred profits and capital gains. Ontario has continued the reserves available prior to the passing of Bill C-139.

### INCREASE IN TAX RATE - CONSEQUENTIAL CHANGES

The 1983 Ontario Budget increased the basic rate of corporate income tax from 14% to 15% effective May 11, 1983. (See Information Bulletin Number 29-83).

The following consequential changes to the Act have been made as a result of the change in the basic rate. These changes apply on a pro-rata basis relative to the number of days in the taxation year before May 11, 1983 and after May 10, 1983 as is the case with the change in the basic rate of tax.

- o Management Fees and Similar Payments to Non-residents or Related Persons - sections 12(6) and (6a)

The fraction used to calculate the amount to be added to income in respect of management fees, rents, royalties, rights or similar payments to a non-resident person with whom the corporation was not dealing at arm's length or to a related person resident in Canada outside Ontario is decreased from 5/14 to 5/15.

- o Allocation - section 31

The rate applied to taxable income earned in a jurisdiction other than Ontario is increased from 14% to 15%.

- o Ontario Foreign Tax Credit - section 32

The upper limit for the Ontario foreign tax credit that may be claimed is increased from 14% to 15% of foreign investment income allocated to Ontario.

- o Mutual Fund Corporations - section 40

The percentages and fractions stated in section 40 which are used in calculating the refundable capital gains tax of a mutual fund corporation and which are based on the income tax rate are changed: 7% to 7.5% (section 40(2)); 14 <sup>2</sup>/<sub>7</sub> times to 13 <sup>1</sup>/<sub>3</sub> times (section 40(4)); 14% to 15% (section 40(5)).

Section 40(6) has been amended to clarify that only the Ontario portion of taxed capital gains will be added to the refundable capital gains tax on hand in years for which a portion of the corporation's taxable income has been earned in a jurisdiction outside Ontario. This will make it clear that any future capital gains refunds will be limited to Ontario tax actually paid on capital gains. This applies to taxation years ending after 1971.



## CAPITAL TAX

### UNPAID EXPENSE ACCRUALS INCLUDED IN PAID-UP CAPITAL - section 54(2c)

The Act has been amended to clarify the requirement to include accruals for management bonuses, salaries and other expenses and dividends declared in paid-up capital where such amounts are unpaid by the end of the year following the year in which the expense was accrued or the dividend declared.

### LOANS AND ADVANCES FROM/TO GOVERNMENTS - sections 53(1) and 54(1)

The Act has been amended to make it clear that loans and advances from governments are included in paid-up capital and that loans and advances to governments qualify for the investment allowance.

### CLARIFICATION - "ANY OTHER SURPLUS", "COST OF INVESTMENTS", "TOTAL ASSETS" - section 54(3)

The Act has been amended to make it clear that amounts deducted in computing income for accounting purposes which are deductible for tax purposes will be included in any other surplus, cost of investments and total assets to the extent that they have not actually been deducted under Part II.

### INVESTMENT ALLOWANCE - LOANS AND ADVANCES TO EXEMPT CORPORATIONS - section 54(1)

Shares and bonds of or loans and advances to corporations exempt from capital tax will NOT qualify for the investment allowance for taxation years of corporations holding such investments ending after May 10, 1983.

### INVESTMENT ALLOWANCE - LOANS AND ADVANCES TO FOREIGN BANKS AND TRUST CORPORATIONS - section 54(1)

The Act has been amended to clarify that term deposits, certificates of deposit and other loans and advances issued by a foreign bank or loan or trust corporation do not qualify for the investment allowance unless issued for a term of 120 days or more and held for at least 120 days. The "120 day rule" also applies for term deposits and similar instruments issued by domestic corporations.

### REFUNDS OF TAX INSTALMENTS - section 75(lb)

The Minister may now make refunds of instalments before assessment of a corporation's return for the year if application therefor has been made in writing. The corporation may request all or a part of instalments paid for the year. Such a request will normally be made in situations where a corporation, having paid instalments for a few months of a year, realizes it has overestimated its tax for the year. The Corporations Tax Branch may, in certain situations, require forecast financial statements in support of the application. The new procedure for obtaining refunds is effective June 6, 1983.

LOSS CARRY-BACKS - AMENDED RETURNS, INTEREST CALCULATIONS  
- sections 72(6), 73(8) and 75(7)

The 1983 Ontario Budget announced that Ontario will parallel federal loss carry-over rules (see Information Bulletin Number 29-83).

Section 73(8) has been amended to enable the filing of an amended return with respect to the carry-back of losses from as many as three subsequent years. Sections 72(6) and 75(7) which respectively prevent the necessity of re-calculating interest for underpayments and overpayments in loss carry-back situations have been amended to ensure that this practice continues under enhanced loss carry-back rules. These changes apply to re-assessments and interest calculations for 1980 and subsequent taxation years with respect to losses for 1983 and subsequent taxation years.

SEMI-ANNUAL REVISION OF INTEREST RATES - section 100(1), Reg. 504

The interest rate to be used in all calculations of interest on overpayments and underpayments for purposes of the Act will be reviewed semi-annually on each April 1st and October 1st. The rate effective on each adjustment date will be determined by a formula prescribed within Regulation 504. The formula calculation specifies that the new rate is the mean of the prime rates of the Royal Bank of Canada, the Bank of Nova Scotia, the Canadian Imperial Bank of Commerce, the Bank of Montreal and the Toronto-Dominion Bank rounded to the nearest whole percentage point. Where the adjustment date is April 1st, the rate calculation is based on prime rates in effect on the preceding January 15th. Where the adjustment date is October 1st, the calculation of the new rate is based on prime rates in effect on the preceding July 15th. Each newly calculated rate will be published in the Ontario Gazette published next after the coming into effect of the new rate.

The interest rate determination by formula will apply for calculations of interest with respect to periods ending after March 31, 1983. As noted in Information Bulletin Number 28-83, 12% is the rate of interest effective April 1, 1983.

INTEREST ON DEFICIENT INSTALMENTS - section 72(5a)

Where a corporation files a return without complete information, such as financial statements, required by section 67(2), any interest on deficient instalments will be based on the tax payable as re-assessed rather than on tax payable as initially assessed. This will apply with respect to interest calculations for taxation years ending after May 10, 1983 where the tax as re-assessed is greater than that initially assessed.

CHANGE IN FISCAL PERIODS - section 1

Approval of the Minister of National Revenue (Canada) will be considered sufficient for purposes of the Corporations Tax Act for year end changes approved by that Minister after June 30, 1983. Separate approval from the Minister of Revenue (Ontario) will no longer be required.



Ministry  
of Revenue

Corporations  
Tax Branch

# Information Bulletin

Bud Gregory  
Minister

T.M. Russell  
Deputy Minister

Number 2734 May 15, 1984

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, CP 622, 33 King Street West, Oshawa, Ontario L1H 8H6  
Téléphone: Oshawa (416) 433-6500 ou Toronto 965-1160 poste 6500

## ONTARIO BUDGET 1984

This Bulletin describes the effect on the Corporations Tax Act of the proposals of the Treasurer of Ontario contained in the 1984 Budget released on May 15, 1984. Technical changes to the Corporations Tax Act (CTA) included in Bill 72 implementing the Budget changes are described in Information Bulletin Number 2735.

### EXEMPTION FOR NEW CORPORATIONS

THREE YEAR INCOME TAX EXEMPTION FOR NEW QUALIFYING CORPORATIONS -  
sections 27, 33, 33a and 70

#### INTRODUCTION

The income tax holiday for small business described in the 1983 Budget (see Information Bulletin Number 29-83 dated May 10, 1983) will expire as scheduled on May 13, 1985. For taxation years ending after May 13, 1985, there will be an income tax exemption for new qualifying corporations for a maximum of their first 3 years. Under this program, Canadian controlled private corporations incorporated after May 13, 1982 will be exempt from Ontario income tax on the Ontario portion of their first \$200,000 of active business income. This program will encourage and assist new business ventures in this province. New corporations which did not have three taxation years before May 14, 1985 will qualify. However, a corporation will not be entitled to more than three years of exemption in total where it has claimed exemption under the original holiday program in certain years and under the tax exemption for new qualifying corporations in later years. For example, a corporation with its first two taxation years ending before May 14, 1985 would only be able to claim exemption for its third taxation year under this program, since its first and second taxation years were eligible under the holiday program.



## ELIGIBILITY

A corporation will qualify for the three year income tax exemption for new qualifying corporations for a taxation year if all of the following criteria are met.

- o the corporation was incorporated after May 13, 1982,
- o the year is the first, second or third taxation year of the corporation and ends after May 13, 1985,
- o the corporation is eligible to claim and has claimed a deduction under subsection 125(1) of the Income Tax Act (Canada) (ITA).

A corporation will not qualify if it, or any predecessor corporation within the meaning of section 87 of the ITA, at any time since its incorporation

- o was related to any other corporation,
- o carried on a "non-qualifying business" in Canada within the meaning of paragraph 125(6)(f) of the ITA,
- o carried on an active business by reason of being a member of a partnership,
- o was a beneficiary of a trust,
- o carried on an active business by reason of being a co-venturer in a joint venture with another corporation, or
- o has carried on an active business by reason of having acquired property from a vendor corporation in respect of which, it, any of its shareholders, or any persons related to it or its shareholders owned at any time more than 10 per cent of any class of capital stock of the vendor.

For example, incorporation of existing proprietorship or partnership businesses, where the shareholders have a minimal ownership interest in an existing corporation will qualify. Also, a corporation newly formed by an employee of a second corporation to acquire property of the second corporation will qualify providing the employee does not own more than 10% of any class of the capital stock of the second corporation.

## MECHANICS

The three year income tax exemption for new qualifying corporations will take the form of a 15% tax credit based on the least of the amounts determined under paragraphs 125(1)(a), (b), (c) and (d) of the ITA. For the purposes of applying paragraph 125(1)(b) of the ITA, the corporation's taxable income for the year under the ITA is adjusted to incorporate losses deducted in the year for Ontario instead of losses deducted for federal income tax purposes. That is, the corporation's taxable income under the ITA is deemed to be;

Taxable income for the year for the  
purposes of the ITA

+

Losses deducted under s.111 ITA for  
the purpose of computing taxable income  
under the ITA

-

Losses deducted under s.27 CTA for the  
purpose of computing taxable income  
under the CTA

This adjustment of the paragraph 125(1)(b) amount for Ontario purposes applies not only to the three year income tax exemption for new qualifying corporations (s.33a) but also in the computation of the following Ontario tax credits for taxation years ending after May 15, 1984;

- o the 5% incentive deduction for small business (s.33(1)(a))
- o the 15% tax credit under the three year tax holiday program introduced by the 1983 Budget (s.33(1)(b))
- o the 1% tax credit for manufacturing and processing profits (s.34)

## INSTALMENTS

Corporations will be required to pay instalments for the taxation years immediately following the exempt period calculated on the basis of a 5% rather than a 15% tax credit in earlier years. Instalments will be required only where the recalculated tax for the previous year and the estimated tax for the current year are \$2,000 or more.

## INFORMATION

For further information pertaining to the three year income tax exemption for new qualifying corporations contact the Tax Specialists' section of the Corporations Tax Branch at:

33 King Street West  
Oshawa, Ontario  
Telephone: (416) 433-6513  
Toronto Line: 965-1160 Ext. 6513





Ministry  
of Revenue

Bud Gregory  
Minister

T.M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

Number 2735 May 15, 1984

Gouvernement  
Publication

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, CP 622, 33 King Street West, Oshawa, Ontario L1H 8H6  
Téléphone: Oshawa (416) 433-6500 ou Toronto 965-1160 poste 6500

This Bulletin summarizes technical changes to the Corporations Tax Act included in Bill 72 implementing the 1984 Budget changes. The Budget changes are described in Information Bulletin Number 2734.

## TECHNICAL CHANGES

### • INCOME TAX

- Loss Carry Overs of Corporations Claiming 15% Small Business Tax Credits
- Scientific Research Expenditures Renounced Federally
- Reductions of Cost for Federal Share Purchase and Scientific Research Tax Credits
- Unused Federal Share Purchase and Scientific Research Tax Credits
- Deduction for Interest Charged — Upward Adjustments of Tax
- Paralleling Recent Federal Provisions — Joint Exploration Corporations
- Calculation of Manufacturing and Processing Profits Tax Credit — Income from Non-Qualifying Business

### • CAPITAL TAX

- Clarification — Taxable Paid-up Capital of Associated Corporations

### • OTHER ITEMS

- Paralleling Recent Federal Changes to Garnishment Provisions
- Paralleling Federal Provisions — Liquidators, Receivers, Receiver — Managers
- Extended Period for Issuing Re-assessments
- Extended Period for Filing Notices of Objection
- Notice on Distribution of Assets

## INCOME TAX

### LOSS CARRY OVERS - CORPORATIONS CLAIMING 15% SMALL BUSINESS TAX CREDITS - sections 27(5) and (6)

Extended loss carry over periods were announced in the Treasurer's 1983 Budget proposals. These are described in Information Bulletin Number 29-83 dated May 10, 1983. Generally, the Corporations Tax Act (CTA) parallels the rules of section 111 of the Income Tax Act (Canada) (ITA) pertaining to the carryover of losses. Further, the CTA generally adopts the rules contained in subsection 111(3) of the ITA applicable with respect to the computation of taxable income and determination of losses for the 1983 and subsequent taxation years. In computing taxable income for a particular year, these rules give a corporation the choice of deducting a loss arising in an earlier year or of deferring it to a future year.

Under the three-year tax holiday program for small businesses introduced in 1982 it was provided that where a loss can be applied against income in an exempt year it will not be deductible in a subsequent year. This policy will be continued by means of an amendment to the loss rules as adopted for Ontario purposes. Therefore, any corporation which has claimed the 15% tax credit under the tax holiday program will not be able to deduct in subsequent years any losses which are otherwise deductible from income in an exempt year, notwithstanding the choice in application of losses otherwise available.

In addition, this exception to the choice in loss applications will also apply to corporations claiming the 15% tax credit under the new program for newly qualifying corporations announced in the May 15, 1984 Ontario Budget.

### SCIENTIFIC RESEARCH EXPENDITURES RENOUNCED FEDERALLY - section 12(11)

A corporation may generate a refund of federal Part VIII tax payable by it in respect of scientific research tax credits to which its investors are entitled by "renouncing" the otherwise deductible scientific research expenditures. Renounced expenditures of this type will not be deductible from income for Ontario purposes.

### REDUCTIONS OF COST FOR FEDERAL SHARE PURCHASE AND SCIENTIFIC RESEARCH TAX CREDITS - section 1(2), 12(13) and 13(6)

Where an investor corporation is entitled federally either to a share purchase tax credit in respect of a share or

a scientific research tax credit in respect of a share, debt obligation or right, the cost of the investment must be reduced by the amount of the credit which the corporation may claim. Where such a credit exceeds the cost of the investment otherwise determined, the excess is a capital gain or income gain depending on the nature of the investment. These federal cost adjustments will be adopted for purposes of Ontario corporations tax.

#### UNUSED FEDERAL SHARE PURCHASE AND SCIENTIFIC RESEARCH TAX CREDITS - section 13(1)

Subsections 39(7) and (8) of the ITA provide that unused share purchase and scientific research tax credits not carried back to reduce tax payable for the year preceding that in which the credits arise are deemed to be capital losses for the year following that in which they arise.

Such losses may not be claimed for Ontario purposes. Share purchase and scientific research tax credits are federal credits not deductible in arriving at Ontario tax payable. Unused credits do not have any bearing on the computation of income for Ontario tax purposes.

#### DEDUCTION FOR INTEREST CHARGED - UPWARD ADJUSTMENTS OF TAX - section 12(12)

Where a corporation has repaid interest previously credited to it in respect of an overpayment of tax levied under a federal or provincial statute that imposes a tax on income, the interest will be deductible to the extent that it was previously included in income. This applies for interest repayments after April 19, 1983.

#### PARALLELING RECENT FEDERAL PROVISIONS - JOINT EXPLORATION CORPORATIONS - section 18(6a)

Subsection 66(10.4) was recently added to the ITA by Bill C-2 which received Royal Assent on January 19, 1984. This subsection adds rules for the computation of the adjusted cost base of capital property or the cost of property other than capital property where the property was received by a shareholder corporation of a joint exploration corporation from the latter as consideration for a payment or loan made to it for the purpose of incurring Canadian development, Canadian exploration or Canadian oil and gas property expenses ("resource expenses"). Essentially, the rules provide that the adjusted cost base of capital property or the cost of other property is reduced by the amount of any resource expenses subsequently renounced to the shareholder corporation by the joint exploration corporation in respect of the payment or loan.

The CTA will be amended to parallel the rules of subsection 66(10.4) ITA. This will apply to resource expenses



incurred by a joint exploration corporation after March 16, 1983 other than any such expenses incurred after March 16, 1983 and before October 1, 1984 in respect of which payment or loan arrangements evidenced in writing were made before that date. The CTA already parallels the other ITA provisions pertaining to joint exploration corporations.

#### CALCULATION OF MANUFACTURING AND PROCESSING PROFITS TAX CREDIT - INCOME FROM NON-QUALIFYING BUSINESS - section 34

In determining profits eligible for the 1% Ontario manufacturing and processing profits tax credit, any amount qualifying for the federal small business deduction under subsection 125(1.1) ITA must be deducted. This will ensure that a non-qualifying business claims only a 5% tax credit in respect of its income under subsection 125(1.1) ITA and a 1% tax credit on any additional income which qualifies for the manufacturing and processing profits tax credit. This change applies for taxation years commencing after 1979 in respect of corporations in existence on October 23, 1979 and to taxation years commencing after October 23, 1979 in other cases. The term "non-qualifying business" is currently defined in paragraph 125(6)(f) ITA.

#### CAPITAL TAX

#### CLARIFICATION - TAXABLE PAID-UP CAPITAL OF ASSOCIATED CORPORATIONS - section 61(3)

Where a corporation is associated with other corporations it will qualify for a reduced rate of capital tax only if the aggregate of its taxable paid-up capital and the taxable paid-up capitals of the corporations with which it is associated does not exceed \$1,000,000.

The CTA will be amended to clarify that the taxable paid-up capital of any associated corporation is relevant to the determination of a reduced rate of tax for the taxpayer corporation and that it will be calculated under the basic computational rules of Division B of Part III of the CTA even where the associated corporation is not subject to tax under the CTA. This is effective May 20, 1980.

#### OTHER ITEMS

#### PARALLELING RECENT FEDERAL CHANGES TO GARNISHMENT PROVISIONS - sections 93(1), (1a), (1b), (3) and (3a)

Where a person ("third party") is or is about to become indebted to a corporation liable to make a payment under the CTA, the Minister may, by registered letter or demand served personally, require that third party to pay the moneys otherwise payable to the corporation to the Treasurer on account of the corporation's liability under the CTA.

In adopting federal garnishment provisions, the CTA will provide for:

- o attachment to third party moneys where the Minister has knowledge or suspects that the third party will, within 90 days, be liable to the corporation owing tax
- o attachment to loans or advances to be made by a financial institution to the corporation owing the tax, to payments by such an institution on behalf of the corporation or to payments in respect of a negotiable instrument issued by a corporation where the corporation has granted security to the institution in respect of indebtedness
- o continuing garnishment in respect of periodic payments such as interest, rent, remuneration, dividends or annuity payments for which specific garnishment of each payment is currently required.

These changes will be effective on the date of Royal Assent to the Bill.

PARALLELING FEDERAL PROVISIONS - LIQUIDATORS, RECEIVERS, RECEIVER-MANAGERS  
- sections 95a(1), (2) and (3)

Every liquidator, receiver, receiver-manager or other like person required by subsection 67(3) CTA to file a return for a corporation for a taxation year will be required to pay all taxes, interest and penalties owing by the corporation for the year to the extent that he has or had, at any time since the taxation year, property of the corporation under his control. Before distributing any property of the corporation, any such person must obtain a certificate from the Minister stating that all amounts owing under the CTA by the corporation which are chargeable against or payable out of the property of the corporation have been paid or that security for payment of amounts owing acceptable to the Minister has been given under section 94a CTA. Failure to obtain the certificate will render the liquidator personally liable for the taxes, interest and penalties owed by the corporation. These changes are effective on the date of Royal Assent to the Bill.

EXTENDED PERIOD FOR ISSUING RE-ASSESSMENTS - sections 73(7)(b) and (c),  
77(5) and 85(4)

The CTA will be amended to enable re-assessment of a taxation year within 8 years from the date of mailing a notice of original assessment for the year where a subsequent year's loss has been carried-back and deducted in arriving at taxable income for the year. The current 6 year time limit for

issuing re-assessments will continue to apply in other situations.

This change is consequential to the extended loss carry-back rules announced in the 1983 Budget (see Information Bulletin Number 29-83 dated May 10, 1983) and applies to re-assessments issued after April 19, 1983.

#### EXTENDED PERIOD FOR FILING NOTICES OF OBJECTION - sections 77(1) and 84

A corporation wishing to object to an assessment will be able to do so by filing a notice of objection within 180 days from the day of mailing of the assessment. Currently, a time period of 90 days applies. Further, the time for filing a notice of objection may be extended by the Minister upon written application therefor within 1 year from the day of mailing the assessment. Currently, an application for extension must be made within 90 days from the date of mailing the assessment. These changes apply to assessments issued after February 14, 1984.

#### NOTICE ON DISTRIBUTION OF ASSETS - section 96(1)

Where a corporation has failed to pay taxes, interest or penalties for more than three years from the date of mailing the notice of assessment, no person may sell any capital assets of the corporation without giving written notice by registered letter to the Minister not less than 10 days before the date of the sale. This requirement will continue but will apply to any property of the corporation not merely capital property. The change is effective on the date of Royal Assent to the Bill.





Ministry  
of Revenue

Corporations  
Tax Branch

# Information Bulletin

Bud Gregory  
Minister

T M Russell  
Deputy Minister

Number 2736 April 1985

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, CP 622, 33 King Street West, Oshawa, Ontario L1H 8H6  
Téléphone: Oshawa (416) 433-6500 ou Toronto 965-1160 poste 6500

Subject: Three Year Income Tax Holiday for Small  
Business - Effect of the Federal Budget Changes

## INTRODUCTION

The three year income tax holiday for small business introduced in the 1982 Ontario Budget and extended for one year in the 1983 Budget is due to expire on May 14, 1985. This Bulletin clarifies the effect of changes made to the federal small business rules by federal Bill C-7 on the Ontario tax holiday for its remaining five months period, i.e. for taxation years ending between January 1, 1985 and May 14, 1985. It is intended to make taxpayers aware of the province's policy in this matter so that they can file their tax returns and arrange their affairs accordingly.

## SIGNIFICANT CHANGES INTRODUCED BY BILL C-7

Federal Bill C-7 introduced significant changes to the definition of "small business" and eligibility for the low 25% federal small business tax rate. It eliminated the cumulative deduction account so that all Canadian controlled private corporations now qualify for the 25% federal tax rate on their first \$200,000 of active business income. It also removed the "non-qualifying business" category so that these corporations now qualify for a 25% tax rate instead of the 33 1/3%.

## EFFECT ON THE THREE YEAR INCOME TAX HOLIDAY

When Ontario's small business tax holiday was introduced, it was designed to provide a benefit only to those corporations eligible for the federal section 125(1) deduction. Therefore, eligibility for the three year tax holiday was based on eligibility for the federal small business deduction under section 125(1) of the Income Tax Act (Canada) as those rules stood prior to Bill C-7. The changes in the federal rules therefore brought under section 125(1) a number of corporations which were not intended to qualify for the tax holiday.

In order to retain the original policy intent of the program, section 33 of the Corporations Tax Act will be amended to exclude from eligibility the additional corporations brought under section 125(1) of the Income Tax Act (Canada). This will be done by means of a Bill to be introduced soon after the Ontario legislature reconvenes.

As a result, for taxation years ending on or after January 1, 1985 and before May 14, 1985 the following types of corporations will not qualify for the three year tax holiday even though they qualify for the federal small business rate because of the simplification measures contained in Bill C-7:

- Canadian-controlled private corporations with cumulative deduction account over \$1 million,
- Small business corporations which were previously eligible for the federal tax credit under subsection 125(1.1) of the Income Tax Act (Canada), that is, professional, personal service and management corporations, and
- Other corporations qualifying as small business because of the Bill C7 changes.

#### ENTERPRISE ONTARIO ANNOUNCEMENT - MARCH 22, 1985

Details relating to the March 22, 1985 announcement on the extension of the small business tax holiday beyond May 13, 1985, the new profits distribution tax and the three-year income tax exemption for start-up firms will be provided in a subsequent Bulletin.

#### TAXPAYER ENQUIRIES

Taxpayers who require further clarification of matters discussed in this Bulletin can contact the Tax Specialists section of the Corporations Tax Branch at:

33 King Street West  
Oshawa, Ontario  
L1H 8H6  
Telephone: (416) 433-6513  
Toronto Line: 965-1160 Ext. 6513



Ministry  
of  
Revenue

Corporations  
Tax Branch

Robert F. Nixon  
Minister

T.M. Russell  
Deputy Minister

# Information Bulletin

Number 2737

Date: February, 1986

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, CP 622, 33 King Street West, Oshawa, Ontario L1H 8H6  
Téléphone: Oshawa (416) 433-6500 ou Toronto 965-1160 poste 6500

## ONTARIO BUDGET 1985

This Bulletin describes the effect on the Corporations Tax Act of the proposals of the Treasurer of Ontario contained in the 1985 Budget released on October 24, 1985. Technical changes to the Corporations Tax Act included in Bill 45, the bill implementing the Budget changes, and amendments outlining the non-filing of returns for special small corporations are described in Information Bulletin Number 2738.

### HIGHLIGHTS

- **FEDERAL HALF-YEAR CCA RULES PARALLELED**
- **INCOME TAX RATE INCREASE**
- **SMALL BUSINESS SIMPLIFICATION**
- **SMALL BUSINESS TAX HOLIDAY**
- **ADD-BACK OF 5/15.5 – MANAGEMENT FEES AND SIMILAR PAYMENTS TO NON-RESIDENTS**
- **3% INVENTORY ALLOWANCE DISCONTINUED**

#### FEDERAL HALF-YEAR CCA RULES PARALLELED

The federal rule allowing one-half maximum CCA in the year an asset is acquired will be paralleled for assets acquired after October 24, 1985. The transitional rules utilized at the time the rule was introduced federally will similarly be adopted as part of this measure. Under these transitional rules:

- The half-year rule will not apply for property acquired after October 24, 1985 and before 1987 if the taxpayer was obligated to acquire it under terms of a written agreement entered into before October 25, 1985 or where certain other specified arrangements were undertaken prior to that date.
- The half-year rule will also not apply where the taxpayer acquired the property from a person with whom he was not dealing at arm's length or in certain "tax rollover" transactions (for example, amalgamations and winding-ups) and where the property was held continuously by that person for a specified period of time.

#### INCOME TAX RATE INCREASE – sections 12, 30, 31, 32, 33, 33a, 40

The general rate of corporate income tax will be increased from 15% to 15.5% effective December 19, 1985. For taxation years ending after December 18, 1985, the tax increase will be prorated on the basis of the number of days after that date.

The effective 14% rate applicable to profits from manufacturing and processing, mining, farming, fishing and logging will be increased to 14.5%. The basic tax rate for small business will remain at 10%.

#### SMALL BUSINESS SIMPLIFICATION – sections 33, 33a, 34, 70

The federal small business simplification measures now contained in the Income Tax Act (Canada) will be paralleled for 1985 and subsequent taxation years (see exception below under "Small Business Tax Holiday"). The 10% small business rate will apply to corporations qualifying as small businesses under the new federal rules, unless they qualify for a lesser rate under the new enterprise incentive provided by section 33a.

Where a corporation is a Canadian-controlled private corporation throughout the year and had taxable income of less than \$200,000 for the preceding taxation year, it will be required to pay its balance of tax within three months of its taxation year-end. Where the preceding taxation year is less than 51 weeks, this rule will be applied with \$200,000 replaced by  $\$200,000 \times \frac{\text{days in previous year}}{365}$ . Other corporations will be required to pay the balance of tax within two months of their taxation year-ends. This change is effective for taxation years ending after December 18, 1985.



## SMALL BUSINESS TAX HOLIDAY – section 33

This section of the bulletin applies to taxation year-ends of corporations ending after December 31, 1984 and before May 14, 1985 that newly qualify as small businesses for purposes of the Income Tax Act (Canada) as a result of federal Bill C-7 simplification measures. These measures discontinued the cumulative deduction account (CDA) and eliminated the "non-qualifying business" category. Such corporations cannot claim the three year tax holiday for small businesses. Refer to Corporations Tax Branch Information Bulletin Number 2736 of April, 1985 for more details. However, as demonstrated in the following example, some corporations may qualify for the tax holiday on a portion of their income and the 10% rate on the remainder of the income qualifying for the federal small business rate.

Example: Canadian-Controlled Private Corporation with year-end January 31, 1985. CDA at the end of the previous year \$920,000.

Federal and Ontario taxable income	\$ 225,000.	
Tax thereon @15%		\$ 33,750.

Less: Small business deduction

- (a) Amount eligible for 15% Tax Credit (Tax Holiday)  
(Federal S.125 rules as at December 31, 1984 as if they applied to the whole year)

Least of:

- |                           |                   |
|---------------------------|-------------------|
| 1. Total business limit   | \$ 1,000,000      |
| CDA                       | <u>920,000</u>    |
|                           | \$ <u>80,000</u>  |
| 2. Annual limit           | \$ <u>200,000</u> |
| 3. Federal taxable income | \$ <u>225,000</u> |
| 4. Active Business Income | \$ <u>225,000</u> |

Tax credit thereon \$80,000 x 15%	(12,000)
-----------------------------------	----------

- (b) Amount eligible for 5% Tax Credit (Federal S.125 rules applicable to 1985 and subsequent years)

Least of 2, 3 and 4	\$ 200,000
Less: Amount eligible for Tax Holiday	<u>80,000</u>
	\$ <u>120,000</u>

Credit \$120,000 x 5%	(6,000)
-----------------------	---------

Total Income Tax Payable	\$ <u>15,750</u>
--------------------------	------------------

A schedule in this form should be attached to your tax return if you are claiming a credit under this section for taxation years ending after December 31, 1984 and before May 14, 1985.

## ADD-BACK OF 5/15.5 – MANAGEMENT FEES AND SIMILAR PAYMENTS TO NON-RESIDENTS – section 12

The requirement that a corporation add back to its income, a fraction of the amount paid with respect to management fees, rents, royalties or similar payments to a non-resident not dealing at arm's length with the corporation will no longer depend on whether the amount has been subjected to withholding tax imposed by the Income Tax Act (Canada). Management fees, rents, royalties or similar payments will not include those items specifically excluded under paragraph 212(1)(d) or subsection 212(4) of the Income Tax Act (Canada). The new basis for the add - back will apply to all such payments deducted in computing income for 1985 and subsequent years.

The fraction used in the add - back is 5/15ths for payments made in taxation years ending before December 19, 1985. Consequential on the increase in the general tax rate to 15.5%, a proration of the add-back will be required for taxation years ending after December 18, 1985 as follows:

Total Add-Back =

$$\begin{array}{rcl} \text{Payments deducted} & \times \frac{5}{15} & \times \frac{\# \text{ of days in taxation year before Dec.19/85}}{\# \text{ of days in taxation year}} \\ \text{during year} & & \end{array}$$

+

$$\begin{array}{rcl} \text{Payments deducted} & \times \frac{5}{15.5} & \times \frac{\# \text{ of days in taxation year after Dec.18/85}}{\# \text{ of days in taxation year}} \\ \text{during year} & & \end{array}$$

The add-back will not apply if the non-resident recipient has included the payment in taxable income earned in Canada. Formerly this exclusion only applied with respect to rent or royalty type payments.

The amendment also introduces an anti-avoidance provision that will enable the Minister to apply the add-back in situations where the taxpayer has entered into an arrangement to circumvent its application.

## 3% INVENTORY ALLOWANCE DISCONTINUED – section 12

The 3% inventory allowance will no longer be allowed as a deduction from income. This will apply for taxation years ending after December 18, 1985. For taxation years including December 18, 1985 there will be a pro-rata allowance of the deduction based on the number of days in the taxation year up to December 18, 1985 and including that date.

## INFORMATION

### ENQUIRIES

For further information on matters contained in this Bulletin, contact the Tax Specialists' section of the Corporations Tax Branch at:

33 King Street West

Oshawa, Ontario

L1H 8H6

Telephone: (416) 433-6513

Toronto Line: 965-1160 Ext.6513

### TAX RETURN FORMS AND PAYMENTS

Metro Toronto residents can visit the Ministry's Public Enquiry Centre at 50 Grosvenor Street. The Centre provides Corporation Tax Returns and accepts Corporation Tax payments at :

Toronto Public Enquiry Centre

50 Grosvenor Street

(one block south of Wellesley, West of Bay Street)







Ministry  
of  
Revenue

Corporations  
Tax Branch

Robert F. Nixon  
Minister

T.M. Russell  
Deputy Minister

# Information Bulletin

Number 2738

Date: February, 1986

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, CP 622, 33 King Street West, Oshawa, Ontario L1H 8H6  
Téléphone: Oshawa (416) 433-6500 ou Toronto 965-1160 poste 6500

This Bulletin describes the rules relating to the exemption from filing returns of Special Small Corporations and summarizes technical changes to the Corporations Tax Act ("CTA") included in Bill 45 implementing the 1985 Budget changes. The Budget changes are described in Information Bulletin Number 2737.

## TECHNICAL CHANGES

### • SPECIAL SMALL CORPORATIONS

- Exemption from Filing Returns

### • INCOME TAX

- Clarification of Deemed Deductions Taken When a Corporation Becomes Subject to Corporations Tax
- Offshore Investment Funds
- Non-resident Royalties and Timber Royalties
- Non-resident Capital Gains Calculations
- Banks – Foreign Tax Credit Modifications
- Paralleling Federal Tax Credit Calculations for Credit Unions
- Increase in Tax Rate – Consequential Changes

### • CAPITAL TAX

- Family Farm and Fishing Corporations
- Surplus Adjustments – Banks and Loan and Trust Corporations

### • OTHER ITEMS

- Date of Receipt of Returns and Remittances
- Revocation of Waivers
- Reminder – Instalments Required for Taxation Years After the Tax Holiday

## SPECIAL SMALL CORPORATIONS

### EXEMPTION FROM FILING RETURNS – sections 1, 67, 70, 72, 73, 75

A corporation that is a defined "special small corporation" for a taxation year will not be required to file a CT23 tax return for the year. This will apply for taxation years ending after March 31, 1986.

A corporation will qualify as a special small corporation for a taxation year if all of the following conditions are met:

- 1) It was a Canadian-controlled private corporation throughout the taxation year.
- 2) It has filed a return under Part I of the Income Tax Act (Canada) for the taxation year.
- 3) Gross revenue for the taxation year is less than \$1,000,000.
- 4) Total assets at the end of the taxation year as determined for capital tax purposes are less than \$1,000,000.
- 5) It has no taxable income for the taxation year and capital tax for the year does not exceed \$100.

Banks, loan and trust corporations and insurance corporations will not qualify as special small corporations.

A special small corporation will pay its balance of tax owing before the end of the 3rd month following the end of the fiscal year. An assessment will be issued based upon receipt of payment.

## INCOME TAX

### CLARIFICATION OF DEEMED DEDUCTIONS TAKEN WHEN A CORPORATION BECOMES SUBJECT TO CORPORATIONS TAX – section 9

The amendments clarify that amounts such as charitable donations and losses deducted in computing a corporation's taxable income for federal income tax purposes for years when it was not liable for Ontario tax, are considered to have been deducted as well for Ontario purposes in those years. The amendment seeks to prevent cases where a corporation operating in another jurisdiction extends its operations into Ontario and seeks to deduct from Ontario income amounts it deducted in computing federal taxable income in past years. This clarification is effective for 1983 and subsequent taxation years and for pre-1983 taxation years with respect to losses determined for 1983 and subsequent taxation years which are carried back to such years.

### OFFSHORE INVESTMENT FUNDS – section 24

Ontario will parallel the federal anti-avoidance provision designed to prevent tax deferral with respect to income from an investment in an offshore investment fund. Where a taxpayer invests in a share or debt of a non-resident entity called an "offshore investment fund property" which derives its value from portfolio investments of that entity, the taxpayer will be required to include in income an amount calculated with respect to the "designated cost" of the offshore investment fund property if one of the main reasons for the investment was deferral of tax. (Income Inclusion calculation: Designated Cost x Federal Designated Interest Rate).

This change is effective after 1985 where an interest in an offshore investment fund property was held by the taxpayer on February 15, 1984 and after 1984 in any other case.

### NON – RESIDENT ROYALTIES AND TIMBER ROYALTIES – section 29

The CTA has been amended to clarify that royalties, timber royalties and similar payments received by a non-resident corporation should be included in computing its taxable income earned in Canada. This change is effective for taxation years ending after December 31, 1984.

### NON – RESIDENT CAPITAL GAINS CALCULATIONS – section 29(3)

This amendment will exempt a portion of a capital gain made from the disposition of a taxable Canadian property by a non-resident corporation if a transitional rule contained in a prescribed convention between Canada and a foreign country has exempted a portion of the gain from federal tax. The Canada – United States Income Tax Convention (1980) will be a prescribed convention for this purpose. Thus, where such a transitional rule applies for federal income tax purposes, the portion of capital gains of a U.S. resident on real property dispositions computed in accordance with Ontario rules and accruing to December 31, 1984 will be exempt from Ontario tax. This amendment is effective for taxation years commencing on or after January 1, 1985.

### BANKS – FOREIGN TAX CREDIT MODIFICATIONS – section 32

This amendment clarifies that banks are denied a foreign tax credit in respect of foreign investment income derived from foreign loans and deposits where the income from these loans and deposits has been allocated to a foreign jurisdiction. The banks will be able to claim a foreign tax credit only in respect of foreign investment income on which Ontario tax is exigible. This amendment is effective for taxation years ending after December 18, 1985.

### PARALLELING FEDERAL TAX CREDIT CALCULATIONS FOR CREDIT UNIONS – section 43

Credit union corporations will, in most cases, now qualify for the 10% tax rate applicable to small business corporations on all of their taxable income. Formerly, the small business rate applied only to the first \$200,000 of their taxable income. These amendments adopt the federal tax treatment of credit unions by providing a 5.5% tax credit similar to the 21% credit provided by subsection 137(3) of the Income Tax Act (Canada) ("ITA"). The new credit is effective for taxation years ending after December 18, 1985.

### INCREASE IN TAX RATE – CONSEQUENTIAL CHANGES

The 1985 Ontario budget increased the basic rate of corporate income tax from 15% to 15.5% effective December 19, 1985. ( See Information Bulletin Number 2737).

The following consequential changes to the Act have been made as a result of the change in the basic rate. These changes apply on a pro-rata basis relative to the number of days in the taxation year before December 19, 1985 and after December 18, 1985 as is the case with the change in the basic rate of tax.



- **MANAGEMENT FEES AND SIMILAR PAYMENTS TO NON-RESIDENT OR RELATED PERSONS – sections 12(6) and (6a)**

The fraction used to calculate the amount to be added to income in respect of management fees, rents, royalties, rights or similar payments to a non-resident person with whom the corporation was not dealing at arm's length or to a related person resident in Canada outside Ontario is decreased from 5/15 to 5/15.5.

- **ALLOCATION – section 31**

The rate applied to taxable income earned in a jurisdiction other than Ontario is increased from 15% to 15.5%. This is to ensure that the corporation is credited with the correct amount of tax in respect of the income allocated to another jurisdiction.

- **ONTARIO FOREIGN TAX CREDIT – section 32**

The upper limit for the Ontario foreign tax credit that may be claimed is increased from 15% to 15.5% of foreign investment income allocated to Ontario.

- **MUTUAL FUND CORPORATION – section 40**

The percentage and fractions stated in section 40 which are used in calculating the refundable capital gains tax of a mutual fund corporation and which are based on the income tax rate are changed: 7.5% to 7.75% (section 40(2)); 13 1/3 times to 12 28/31 times (section 40(4)); 15% to 15.5% (section 40(5)).

In addition, subsection 40(2) has been amended to recognize Ontario's policy of allowing capital gains refunds up to 4 years from the end of the year rather than 3 years as is the case federally and to recognize that Ontario will process refund applications within 8 years from the date of original assessment (rather than 6 years as is the case federally) where a loss has been carried back to reduce taxable income of the year. These changes are effective April 20, 1983.

## **CAPITAL TAX**

### **FAMILY FARM AND FISHING CORPORATIONS – sections 1 and 63**

The definitions of "family farm corporation" and "family fishing corporation" have been modified so that corporations otherwise so qualifying whose shares are held through holding companies owned by eligible farming or fishing family personnel will qualify for the \$50 flat rate capital tax. Formerly the shares of qualifying corporations had to be owned directly by the farmer/fisherman or by him and his family or by another family farm/family fishing corporation. The holding companies themselves will continue to pay capital tax at the normal rate. These modifications are effective for taxation years ending after December 18, 1985.

### **SURPLUS ADJUSTMENTS – BANKS AND LOAN AND TRUST CORPORATIONS – section 54**

Banks and loan and trust corporations will be required to make adjustments to paid-up capital for differences between tax and book deductions similar to those made by other corporations. This amendment is effective for taxation years ending after December 31, 1984.

## **OTHER ITEMS**

### **DATE OF RECEIPT OF RETURNS AND REMITTANCES – sections 68, 72, 75, 76**

These sections have been amended to provide the authority to clarify by regulation the date returns and remittances are considered to have been received by the Ministry of Revenue. This clarification will apply for determining whether a return is subject to late filing penalties and for determining the date of receipt of remittances for the purpose of charging and crediting interest. These amendments are effective April 1, 1986.

### **REVOCATION OF WAIVERS – section 73(7a)**

The proposed amendments are similar to recent federal amendments and permit a corporation to revoke waivers previously filed. Where waiver of the six year Ontario limit was done by filing a waiver under subsection 152(4) of the ITA, revocation may be accomplished by filing with the Ontario Corporations Tax Branch a copy of the federal Notice of Revocation filed under S.152(4.1) of the ITA. Where waiver of the six year limit was done by filing Ontario prescribed Form 3 under clause 73(7)(a)(iv) of the CTA, revocation may be accomplished by filing with the Branch an Ontario Notice of Revocation in prescribed form. In either case, the Minister is limited to issuing reassessments in respect of a particular year to one year after the notice of revocation has been filed. The amendments apply to federal and Ontario revocation forms filed with the Branch after February 15, 1984.



## REMINDER – INSTALMENTS REQUIRED FOR TAXATION YEARS AFTER THE TAX HOLIDAY – section 70

For taxation years following the 3 year tax holiday, or following years in which the tax exemption for "new qualifying corporations" was claimed, taxpayers are reminded that instalments should be calculated as though the company paid tax at 10% rather than nil on its small business income for earlier years in which such claims were made.

## INFORMATION

### ENQUIRIES

For further information on matters contained in this Bulletin, contact the Tax Specialists' section of the Corporations Tax Branch at;

33 King Street West

Oshawa, Ontario

L1H 8H6

Telephone: (416) 433-6513

Toronto Line: 965-1160 Ext. 6513



Ontario

Ministry  
of  
Revenue

Robert F. Nixon  
Minister

T.M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

Number 2739 August 1986

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, CP 622, 33 King Street West, Oshawa, Ontario L1H 8H6  
Téléphone: Oshawa (416) 433-6500 ou Toronto 965-1160 poste 6500

## ONTARIO BUDGET 1986

This Bulletin describes the effect on the Corporations Tax Act of the proposals of the Treasurer of Ontario contained in the 1986 Budget released on May 13, 1986. Technical changes to the Corporations Tax Act included in Bill 27, the Bill implementing the Budget changes, are also described herein.

### HIGHLIGHTS – BUDGET

- CAPITAL TAX – "120-DAY RULE"
- RESERVES

### HIGHLIGHTS – TECHNICAL CHANGES

- TAX TREATIES – ENABLING PROVISION
- FOREIGN TAX CREDIT WASTAGE

### CAPITAL TAX BULLETINS – AN UPDATE

### HIGHLIGHTS – BUDGET

#### Capital Tax – "120-Day Rule"

The 1986 Budget introduced some modifications to the capital tax rules for short-term debt instruments effective for taxation years ending on or after January 1, 1987. This results in a change in the treatment of certain instruments and legislative affirmation of existing policy for others.

#### *Inclusion in Paid-Up Capital*

- Bankers' acceptances, regardless of term or the purpose for which they are issued, will be included in paid-up capital.
- A corporation's trade accounts payable to a related corporation outstanding for 120 days or more prior to the corporation's year end or to an unrelated corporation outstanding for 365 days or more prior to the corporation's year end, will be included in its paid-up capital.



### *Investment Allowance-Deduction from Paid-Up Capital*

The 120-day rule will apply more consistently to a broader range of instruments when determining investments eligible for the investment allowance.

- Short-term investments in treasury bills, government bonds and commercial paper must be issued for a term of 120 days or more and held for at least 120 days prior to the year end of the investor. Commercial paper which is issued without a specified term, must be held for 120 days or more prior to year end of the investor in order to qualify. Formerly, these instruments could qualify regardless of term or holding period.
- Term deposits of Banks or Loan and Trust Corporations will qualify for the investment allowance if issued for a term of 120 days or more and held for at least 120 days prior to the end of the taxation year of the investor. Previously, the 120 day holding period could straddle the end of the year.
- A corporation's trade accounts receivable due from a related corporation outstanding for at least 120 days prior to the corporation's year end or from an unrelated corporation outstanding for at least 365 days prior to the corporation's year end, will qualify for the investment allowance.

### *Exception – Investment Dealers/Brokers*

Money market instruments held in an investment dealer's or broker's inventory for sale to customers at the end of the taxation year will qualify for the investment allowance regardless of the 120 day rule otherwise applicable. Such instruments include treasury bills, government bonds, bearer deposit notes, commercial paper and bankers' acceptances.

## **Reserves**

Effective for dispositions after December 31, 1986, Ontario will parallel the federal reserve provisions with respect to deferred profits, capital gains and resource properties. (For federal purposes, these restrictions were introduced in the November 1981 Federal Budget.)

- *Deferred Profits Reserve*

In situations where the full sales price has not been received in respect of property sold in the course of business during a particular taxation year, the corporation may defer a portion of the profit from the sale to later years by claiming a reserve. A reserve may no longer be claimed for a taxation year which ends more than 36 months after the date of sale. Previously, a corporation was not limited to a maximum time period and reserves could be claimed as long as a portion of the proceeds of sale were due beyond the end of the year.

- *Capital Gains Reserve*

Where the full sale price has not been received by the end of the taxation year in respect of a disposition of property resulting in a capital gain, a corporation may claim a reserve to defer a part of the gain from the sale to later years. A limitation being placed on this reserve will require inclusion in income of the full taxable capital gain within 5 taxation years commencing with the year of disposition.

- *Resource Property Reserves*

Reserves for resource property dispositions will be eliminated. Previously, reserves enabled a deferral of income where a portion of sale proceeds remained outstanding at the end of the year.



## HIGHLIGHTS – TECHNICAL CHANGES

### Tax Treaties – Enabling Provision

An amendment to the Corporations Tax Act will authorize regulations to be made to enable Ontario to abide by certain articles of a Treaty between Canada and another country where considered necessary. The manner in which the provisions of the Act should be modified and applied in such instances will be detailed in the Regulations.

### Foreign Tax Credit Wastage

Federal Bill C-72 made changes with respect to the foreign tax credit which may be claimed under section 126 of the Income Tax Act (Canada). New section 110.5 permits a corporation to increase its taxable income in order to increase foreign tax credit claims. The amount added to taxable income is also added to the corporation's non-capital loss which may be carried over to other taxation years.

It will be provided that the amount added to a corporation's taxable income and non-capital loss for federal purposes, must also be added to Ontario taxable income and Ontario non-capital loss for the same taxation year. This is effective for taxation years ending after December 31, 1984.

## CAPITAL TAX BULLETINS – AN UPDATE

Certain capital tax interpretation bulletins previously issued by this Branch should be updated as a result of the 1986 Budget.

- Bulletin L-16 dated November 24, 1981 Page 5. The first paragraph entitled "120 days period straddling Balance Sheet", will not apply for taxation years ending after December 31, 1986.
- Bulletin L-10R dated August 15, 1980 Page 3 lists investments qualifying for the investment allowance. Where applicable, this bulletin supersedes the previous rules.
- Bulletin L-8R dated August 15, 1980 Page 3. The rules regarding trade accounts payable and receivable made reference to normal terms of trade. For capital tax purposes, these terms will no longer be applicable after December 31, 1986. The rules mentioned in the paragraph at the bottom of the page regarding bankers' acceptances will also no longer apply after December 31, 1986.

## INFORMATION

### Enquiries

For further information on matters contained in this bulletin, contact the Legislation Section of the Corporations Tax Branch at:

33 King Street West  
Oshawa, Ontario  
L1H 8H6

Telephone: (416) 433-6513

Toronto Line: 965-1160 ext. 6513





Ontario

Ministry  
of  
Revenue

Robert F. Nixon  
Minister

T.M. Russell  
Deputy Minister

Corporations  
Tax Branch

# Information Bulletin

Government  
Publications

Number 2740

Date: February, 1987

Les bulletins sont disponibles en français sur demande à la Direction de l'impôt sur les corporations,  
Ministère du Revenu, CP 622, 33 King Street West, Oshawa, Ontario L1H 8H6  
Téléphone: Oshawa (416) 433-6500 ou Toronto 965-1160 poste 6500

Ontario Regulation 763/86, filed on December 30, 1986 (Ontario Gazette of January 17, 1987) amends Ontario Regulation 191, R.R.O. 1980 under the Corporations Tax Act, R.S.O. 1980.

This Bulletin summarizes the main amendments to the Regulations under the Act. It also describes recent changes to Ontario political contribution limits and clarifies procedural matters for Special Small Corporations.

## REGULATION AMENDMENTS AND OTHER MATTERS

- HALF-YEAR RULE — CAPITAL COST ALLOWANCE
- NATURAL RESOURCE INDUSTRY
- ALLOCATION OF REVENUE FROM EXPORT SALES
- SPECIAL SMALL CORPORATIONS
- INCREASED ONTARIO POLITICAL CONTRIBUTIONS
- DEEMED DATE FOR RECEIPT OF PAYMENT AND TAX RETURNS
- PRESCRIBED FORMS

### HALF-YEAR RULE — CAPITAL COST ALLOWANCE

Changes to section 201 of the Regulations under the Act implement the 1985 Budget proposal to parallel the federal capital cost allowance "half-year" rule effective October 24, 1985. The "half-year" rule limits the capital cost allowance deduction to 50 percent of the maximum amount otherwise deductible with respect to new assets acquired after that date.

The "half-year" rule does not apply to assets acquired after October 24, 1985 and before 1987 if arrangements pertaining to the acquisition were substantially advanced before October 25, 1985. It also does not apply to assets acquired in certain statutory "rollovers" or from a person not dealing at arm's length with the corporation.

### NATURAL RESOURCE INDUSTRY

Changes to sections 101, 104, 109 and 201 of the Regulations have been made to parallel or modify amendments to the federal regulations affecting the resource industry.

Highlights are as follows:

- Clarify that reserves claimed in respect of the disposition of resource properties are available for Ontario tax purposes (In accordance with the Ontario 1986 Budget these reserves may not be claimed after 1986)
- Provide that for Ontario purposes, iron ore mining income will continue to include income from the processing of iron ore to the prime metal stage and manufacturing and processing income will not include income from processing iron ore from the pellet to the prime metal stage.
- Parallel federal changes with respect to the earned depletion base, depletion allowance, resource profits, Canadian development expenses, Canadian exploration expenses and other technical changes made to the federal regulations in 1985.



## ALLOCATION OF REVENUE FROM EXPORT SALES

Subsection 302(4a) has been added to the Regulations to clarify the rules for allocating taxable income and taxable paid-up capital where sales are made to customers in a foreign jurisdiction in which the company has a permanent establishment.

Where merchandise is sold to a customer in a foreign jurisdiction or where a customer in a foreign jurisdiction instructs that shipment of goods be made to another person, the sale is normally allocated to that foreign jurisdiction of the customer. Under the new rules, if the corporation is not subject to tax on the income or profits from the sale in that foreign jurisdiction due to the laws of that country or any tax treaty or convention between that country and Canada, the revenue from the sale is attributed to provinces or territories within Canada where the goods were produced or manufactured.

This change is effective for taxation years ended after December 31, 1985.

## SPECIAL SMALL CORPORATIONS

Section 67 of the Corporations Tax Act provides that a Special Small Corporation is not required to file a Corporations Tax Return (CT23) or financial statements. For taxation years ending after March 31, 1986 these corporations are only required to complete the "Declaration for a Special Small Corporation" on the "Notice of Payment Due" form which is mailed to corporations approximately two months after the taxation year end.

A Special Small Corporation which is carrying forward losses of prior years should maintain a loss continuity schedule to be filed with the CT23 return for the year it ceases to qualify as a Special Small Corporation.

The tax simplification measure was introduced to reduce the paper burden for small businesses. As long as a corporation continues to qualify as a Special Small Corporation it is encouraged to take advantage of the simplified reporting procedures.

For more information on which corporations qualify as "Special Small Corporations" refer to Information Bulletin Number 2738 dated February 1986.

## INCREASED ONTARIO POLITICAL CONTRIBUTIONS

Bill 103, "An Act to revise the Election Finances Reform Act and to amend certain other Acts respecting Election Financing" received Royal Assent July 10, 1986.

The changes to the Election Finances Reform Act provide that a person, corporation or trade union may contribute in any year up to \$4,000 (formerly \$2,000) to each registered political party. They may also contribute \$750 (formerly \$500) to any registered constituency association to an aggregate of \$3,000 (formerly \$2,000) to constituency associations of each party.

During an election an additional \$4,000 (formerly \$2,000) contribution is permitted to each registered party. A contribution up to \$750 (formerly \$500) may be made to any registered candidate in an election, but total contributions to candidates of the same party may not exceed \$3,000 (formerly \$2,000).

Section 28 of the Corporations Tax Act has been amended to increase the maximum political contribution deduction in a taxation year to \$7,000 (formerly \$4,000). The undeducted balance of contributions may be carried forward and applied against income in future years.

Changes to the Corporations Tax Act are effective January 1, 1986 with respect to amounts contributed on or after that date.

## DEEMED DATE FOR RECEIPT OF PAYMENT AND TAX RETURNS

For purposes of levying relevant penalties and interest under the Act, the dates of receipt of payments and Corporations Tax Returns (CT23) under subsections 72(8) and (9) and 75(6a) of the Corporations Tax Act are now prescribed.

Subsection 504(5) has been added to the Regulations to clarify that tax returns and tax payments are considered to have been received by the Minister on the following dates.

- a) The date actually received by the Ministry.
- b) In the case of payments received by a bank or other authorized financial institution, the day of receipt by the institution.

## PRESCRIBED FORMS

Under subclause 73(7)(a)(iv) of the Corporations Tax Act, a corporation may file prescribed Form 3, "Waiver of Time Limit for Issuing Reassessments" to waive the time limit within which the Minister may assess, reassess or make additional assessments.

Section 603a has been added to the Regulations to prescribe Form 4, "Notice of Revocation of Waiver" as required under clause 73(7a)(a) of the Corporations Tax Act. The filing of the Notice of Revocation of Waiver revokes a previously filed "Form 3" waiver effective one year after the Notice of Revocation of Waiver is filed.

In lieu of filing Ontario waiver and revocation of waiver forms, a corporation may, at its option, file copies of federal waiver and federal revocation forms filed under the Income Tax Act (Canada).

The following prescribed forms have been updated to reflect certain technical changes.

- Form 1 — Notice of Objection
- Form 3 — Waiver of Time Limit for Issuing Reassessments

A change to Form 3 now requires that the income tax and/or capital tax matter(s) in respect of which the time limit is waived must be specified.

## INFORMATION

### ENQUIRIES

For further information on matters contained in this Bulletin, contact the Legislation Section of the Corporations Tax Branch at:

33 King Street West

Oshawa, Ontario

L1H 8H6

Telephone: (416) 433-6513

Toronto Line: 965-1160 Ext. 6513







July 1988

Number 2741 Numéro

Juillet 1988

This Bulletin describes the effect on the Corporations Tax Act of the proposals of the Treasurer of Ontario contained in the 1988 Budget released on April 20, 1988 along with certain changes in administrative procedures and other items.

#### HIGHLIGHTS

##### • CAPITAL TAX

- Small Corporations — Exemption
- Flat Rate Capital Tax
- Associated Corporations
- Loan and Trust Corporations

##### • EXEMPTION FROM FILING TAX RETURNS

- Administrative Procedures

##### • PHASE OUT OF THREE-YEAR TAX HOLIDAY

##### • ONTARIO M & P CURRENT COST ADJUSTMENT

##### • R & D SUPER ALLOWANCE

##### • MINING CORPORATIONS — DEPLETION/RESOURCE ALLOWANCES

##### • FEDERAL TAX REFORM

- Filing and Payment Procedures

##### • OTHER ITEMS

- Farm Equipment Dealers Tax Reduction Program
- Time Limit for Issuing Reassessments
- Advance Corporations Tax Rulings
- Tax Sparing — International Tax Conventions

Le présent bulletin décrit l'effet des propositions du trésorier de l'Ontario sur la Loi sur l'imposition des personnes morales, contenues dans le budget 1988 déposé le 20 avril dernier, et relate certaines modifications afférentes aux procédures administratives ainsi qu'à d'autres articles.

#### FAITS SAILLANTS

##### • IMPÔT SUR LE CAPITAL

- Petites entreprises — Exonération
- Taux uniforme d'imposition du capital
- Corporations associées
- Compagnies de prêt et de fiducie

##### • EXEMPTION DE PRODUCTION DE DÉCLARATION D'IMPÔT

- Procédures administratives

##### • ÉLIMINATION GRADUELLE DE L'EXONÉRATION DE TROIS ANS DE L'IMPÔT SUR LE REVENU

##### • FABRICATION ET TRANSFORMATION : REDRESSEMENT DU COÛT DE REMPLACEMENT ACTUEL

##### • SUPER DÉDUCTION POUR LA RD

##### • SOCIÉTÉS MINIÈRES — DÉDUCTIONS RELATIVES AUX RESSOURCES ET À L'ÉPUISEMENT

##### • RÉFORME FISCALE FÉDÉRALE

- Procédures de production et de paiement

##### • AUTRES ARTICLES

- Programme de réduction d'impôt au bénéfice des marchands d'équipement agricole
- Délai d'émission des nouvelles cotisations
- Décisions anticipées en matière d'impôt sur le revenu des corporations
- Réserve des impôts — Conventions fiscales internationales

#### IMPÔT SUR LE CAPITAL

Pour les années d'imposition se terminant après le 20 avril 1988, le budget 1988 propose que certaines petites entreprises soient exemptées du paiement de l'impôt sur le capital, et que de nouveaux taux uniformes d'imposition du capital soient appliqués aux autres petites entreprises.

##### Petites entreprises — Exonération

Les compagnies dont l'actif total et le produit brut sont de 1 million de dollars ou moins, tel qu'indiqué sur leur état financier, seront exemptées de l'impôt ontarien sur le capital.

#### CAPITAL TAX

For taxation years ending after April 20, 1988, the 1988 Budget proposes that certain small corporations be exempt from payment of capital tax and that new flat rates of capital tax apply for other small corporations.

##### Small Corporations — Exemption

Corporations will be exempt from capital tax if total assets and gross revenue as reported on their financial statements are each \$1 million or less.

## Flat Rate Capital Tax

Other small corporations with total assets or gross revenue over \$1 million may be eligible for the flat rates of capital tax set out in the following table.

Corporations with taxable paid-up capital (before allocation)	Total assets or gross revenue	Capital Tax Payable
N/A	Both $\leq$ \$1,000,000	Nil
$\leq$ \$1,000,000	$>$ \$1,000,000	\$100
$>$ \$1,000,000 $\leq$ \$2,000,000	$>$ \$1,000,000 Both $\leq$ \$1,500,000	\$200
$>$ \$1,000,000 $\leq$ \$2,000,000	$>$ \$1,500,000	\$500
$>$ \$2,000,000 $\leq$ \$2,300,000	N/A	3/10 of 1.0% of taxable paid-up capital minus 1.83% of (\$2,300,000 less taxable paid-up capital)

- Corporations with taxable paid-up capital (before allocation) over \$2,300,000 will continue to pay capital tax at the rate of 3/10 of 1%.
- The minimum capital tax of \$50 no longer applies.
- Where both the Temporary Capital Tax Reduction Program for FARM EQUIPMENT DEALERS and the above flat rates apply to a taxation year, the dealer has the option of using the rules which produce the lesser amount of capital tax for that year.
- Family farm corporations, family fishing corporations, mortgage investment corporations, credit unions and mutual insurance corporations insuring churches, schools and charitable organizations will pay a flat rate of \$100 if they do not qualify for the capital tax exemption.
- Generally, companies will be able to use total assets and gross revenue per unconsolidated financial statements rather than having to compute their taxable capital to determine which flat rate of capital tax applies. However, in determining both total assets and gross revenue, taxpayers should include their share of total assets and gross revenues of any partnerships in which they have an interest.
- For this purpose, the financial statements should be those prepared for reporting to shareholders, owners or partners and, as required by subsection 67(2) of the Corporations Tax Act, should be in agreement with the books of the corporation.

## Associated Corporations

Where a corporation is associated with one or more corporations and the aggregate taxable capital of the associated group is \$2 million or less, each associated corporation with total assets and gross revenue of \$1 million or less is exempt from capital tax. Any associated corporation with total assets or gross revenue in excess of \$1 million will be liable to a flat rate in accordance with the above table.

The above exemption and flat rates of capital tax do not apply where the aggregate taxable capital of the associated group exceeds \$2,000,000. In such cases each corporation is required to file a return and compute its capital tax at the regular rate of 3/10 of 1%.

## Loan And Trust Corporations

- The Loan and Trust corporations capital tax rate has been increased from 3/5 of 1% to 4/5 of 1% effective for taxation years ending after April 20, 1988.

## Taux uniforme d'imposition du capital

Les autres petites entreprises dont l'actif total ou le produit brut est supérieur à 1 million de dollars peuvent être admissibles à des taux uniformes d'imposition du capital, tels qu'établis dans le tableau suivant.

Compagnies à capital versé imposable (avant répartition)	Actif total ou produit brut	Impôt payable sur le capital
N/A	Les deux $\leq$ 1 000 000 \$	Néant
$\leq$ 1 000 000 \$	$>$ 1 000 000 \$	100 \$
$>$ 1 000 000 \$ $\leq$ 2 000 000 \$	$>$ 1 000 000 \$ Les deux $\leq$ 1 500 000 \$	200 \$
$>$ 1 000 000 \$ $\leq$ 2 000 000 \$	$>$ 1 500 000 \$	500 \$
$>$ 2 000 000 \$ $\leq$ 2 300 000 \$	N/A	0,3 pour 100 du capital versé imposable moins 1,83 pour 100 de (2 300 000 \$ moins capital versé imposable)

- Les corporations au capital versé imposable (avant répartition) supérieur à 2,3 millions de dollars continueront de payer l'impôt sur le capital, au taux de 0,3 pour 100.
- L'impôt minimal de 50 \$ sur le capital ne s'applique plus.
- Si le programme de réduction temporaire de l'impôt sur le capital POUR LES MARCHANDS D'ÉQUIPEMENT AGRICOLE ainsi que les taux uniformes susmentionnés s'appliquent à une année d'imposition, le marchand a le choix d'appliquer les règles qui produisent le montant le plus bas de l'impôt sur le capital pour cette année-là.
- Les corporations agricoles familiales, les corporations familiales de pêche, les corporations de placements hypothécaires, les caisses de crédit et les corporations d'assurance mutuelle assurant les églises, les écoles et les oeuvres de charité paieront un taux uniforme de 100 \$ s'ils ne sont pas admissibles à l'exemption de l'impôt sur le capital.
- En général, des compagnies pourront utiliser l'actif total et le produit brut en fonction de leurs états financiers non consolidés, au lieu de devoir calculer leur capital imposable pour déterminer quel taux uniforme d'impôt sur le capital s'applique. Toutefois, lors de l'établissement de l'actif total et du produit brut, les contribuables devront inclure leur part de l'actif total et du produit brut de toute société de personnes où ils détiennent un intérêt.
- À cette fin, les états financiers doivent être ceux qui sont présentés aux actionnaires, aux propriétaires ou aux associés et, tel que requis par le paragraphe 67 (2) de la Loi sur l'imposition des personnes morales, ces états financiers doivent concorder avec les livres de la corporation.

## Corporations associées

Lorsqu'une corporation est associée avec une ou plusieurs autres corporations, et que le capital imposable total du groupe de corporations associées est de 2 millions de dollars ou moins, chaque corporation associée dont l'actif total et le produit brut sont de 1 million de dollars ou moins est exempte de l'impôt sur le capital. Toute corporation associée dont actif total ou le revenu brut est supérieur à 1 million de dollars devra verser un taux uniforme d'impôt sur le capital conformément au tableau ci-dessus.

L'exemption et les taux uniformes d'impôt sur le capital précités ne s'appliquent pas lorsque le capital imposable total du groupe associé dépasse 2 millions de dollars. Dans ce cas, chaque corporation doit produire une déclaration et calculer son impôt sur le capital au taux ordinaire de 0,3 pour 100.

## Compagnies de prêt et de fiducie

- Le taux d'imposition du capital des compagnies de prêt et de fiducie a été augmenté et passe de 0,6 pour 100 à 0,8 pour 100, entrant en vigueur pour les années d'imposition se terminant après le 20 avril 1988.



- The increase in tax should be prorated based on the number of days in the taxation year subsequent to that date.

### EXEMPTION FROM FILING TAX RETURNS

To further enhance the capital tax simplification measures announced in the Budget, there will be changes in the tax return (CT-23) filing requirements for small corporations.

For taxation years ending after April 20, 1988 a corporation will be exempt from filing a tax return if all the following conditions are met with respect to that taxation year.

- It is a Canadian-controlled private corporation throughout the taxation year
- It files a federal income tax return (T2) with Revenue Canada, Taxation
- It has no taxable income
- It has no tax payable

### Administrative Procedures

- All non-Canadian-controlled private corporations (excluding charitable and non-profit corporations) should file returns.
- The onus falls on corporations claiming a refund of taxes from the application of losses to prior years to file financial statements and supporting documentation for the year in which the loss was incurred and amended returns for the years to which the loss is applied. For corporations which claimed the tax holiday, the procedure of applying losses first to the tax exempt years, as outlined in Information Bulletin Number 2735, will continue.
- Corporations not required to file returns should maintain adequate records for non-filing years to support any claim made in other years. For example, this means that records may have to be kept for more than sixty months to substantiate losses claimed in subsequent years.
- A Notice of Assessment will not be issued to a corporation for a taxation year in which it is exempt from filing a tax return. In such cases, if a return is filed it will not be retained by the Corporations Tax Branch but will be destroyed.
- Corporations exempt from filing will not be subject to the statute-barred time limitations. That period commences from the day of mailing of a Notice of Assessment or a notification that no tax is payable for the year, as specified under clause 73(7) (c) of the Corporations Tax Act.
- The Special Small Corporation program is discontinued effective April 20, 1988. Corporations previously exempt from filing are no longer required to complete the Special Small Corporation Declaration for taxation years ending after April 20, 1988.

### PHASE OUT OF THREE-YEAR INCOME TAX HOLIDAY

The three year income tax holiday for newly incorporated small businesses is being phased out.

- Companies incorporated after April 20, 1988 will not qualify for the three year income tax exemption.
- Those companies incorporated before April 21, 1988 and carrying on ACTIVE BUSINESS PRIOR TO THAT DATE will continue to be eligible for the deduction for their first three taxation years.
- Corporations which do not qualify for the tax holiday but which qualify for the federal small business deduction under section 125(1) of the Income Tax Act (Canada) will continue to qualify for the 5.5% Small Business Incentive Deduction under section 33 of the Corporations Tax Act.

- Pour les années d'imposition chevauchant le 20 avril 1988, la hausse du taux d'imposition sera appliquée selon le nombre de jours de l'année d'imposition suivant cette date.

### EXEMPTION DE PRODUCTION DE DÉCLARATION D'IMPÔT

Afin de consolider les mesures de simplification de l'impôt sur le capital annoncées dans le budget, des modifications seront apportées aux exigences de production d'une déclaration d'impôt (CT-23) à l'intention des petites entreprises.

Pour les années d'imposition se terminant après le 20 avril 1988, une entreprise sera exemptée de produire une déclaration d'impôt sur le revenu si toutes les conditions suivantes sont observées relativement à l'année d'imposition.

- Il s'agit d'une entreprise privée dont le contrôle est canadien, durant toute l'année d'imposition;
- elle produit une déclaration d'impôt sur le revenu fédéral (T2) auprès de Revenu Canada, Impôt;
- elle n'a pas de revenu imposable; et
- elle n'a pas d'impôt exigible.

### Procédures administratives

- Toutes les corporations privées dont le contrôle n'est pas canadien (à l'exclusion des œuvres de charité et des organismes sans but lucratif) doivent produire une déclaration d'impôt.
- Il incombe aux corporations demandant un remboursement d'impôt en raison de l'application de pertes aux années précédentes, de produire leurs états financiers accompagnés des pièces justificatives pour l'année où la corporation a subi une perte, ainsi que les déclarations modifiées pour les années où est appliquée la perte. En ce qui concerne les corporations qui se sont prévaluées des mesures d'exonération fiscale en vigueur, la procédure permettant d'appliquer d'abord les pertes aux années exonérées d'impôt, tel que décrite dans le bulletin d'information Numéro 2735, se poursuivra.
- Les corporations qui ne sont pas tenues de produire une déclaration d'impôt doivent conserver des dossiers adéquats relatifs aux années non déclarées afin de pouvoir justifier toute demande formulée les autres années. Par exemple, cela signifie que les dossiers doivent avoir été tenus pendant plus de 60 mois afin de justifier, au cours des années suivantes, les pertes déclarées.
- Un avis de cotisation sera émis à toute corporation exempte de produire une déclaration d'impôt pour une année d'imposition. Dans un tel cas, si une déclaration est produite, la Direction de l'imposition des compagnies ne retiendra pas cette déclaration et la détruira.
- Les corporations exemptes de produire une déclaration d'impôt ne seront pas frappées de prescription. Cette période commence à partir de la date d'envoi postal d'un avis de cotisation ou d'un avis informant qu'aucun impôt n'est exigible pour l'année, tel que stipulé à l'alinéa 73 (7) (c) de la Loi sur l'imposition des personnes morales.
- Le programme spécial pour petites entreprises prend fin le 20 avril 1988. Les corporations auparavant exemptes de produire une déclaration d'impôt ne sont plus tenues de remplir la déclaration spéciale pour petites entreprises, pour les années d'imposition se terminant après le 20 avril 1988.

### ÉLIMINATION GRADUELLE DE L'EXONÉRATION DE TROIS ANS DE L'IMPÔT SUR LE REVENU

L'exonération de trois ans de l'impôt ontarien sur le revenu accordée aux nouvelles compagnies constituées en personnes morales sera graduellement éliminée.

- Les compagnies constituées en personnes morales après le 20 avril 1988 ne seront pas admissibles à l'exonération de trois ans de l'impôt sur le revenu.
- Les compagnies constituées en personnes morales avant le 21 avril 1988 et qui auront EXERCÉ DES ACTIVITÉS COMMERCIALES JUSQU'À CE JOUR pourront toujours avoir droit à cette exonération pour leurs trois premières années d'imposition.
- Les compagnies qui ne sont pas admissibles à cette exonération mais qui ont droit à la déduction de l'impôt fédéral pour petites entreprises, en vertu du paragraphe 125 (1) de la Loi de l'impôt sur le revenu continueront de pouvoir se prévaloir de l'encouragement fiscal de 5,5 pour 100 pour petites entreprises, conformément à l'article 33 de la Loi sur l'imposition des personnes morales.



## ONTARIO MANUFACTURING AND PROCESSING (M & P) CURRENT COST ADJUSTMENT

Corporations will be allowed a one-time deduction from Ontario income with respect to new manufacturing and processing (M & P) machinery and equipment purchased after 1988 for use in Ontario. This means that corporations will receive full benefit of this deduction in cases where allocation is made to other jurisdictions since the adjustment will be applied to reduce Ontario income only.

The adjustment is deductible in the first taxation year that the capital cost allowance on the equipment is claimable. The rates of deduction will be 10% of the depreciable cost of the M & P machinery and equipment purchased in 1989 and 15% for purchases made after 1989. For purposes of claiming capital cost allowance with respect to the manufacturing and processing equipment, Ontario will parallel the federal classifications and rates.

## RESEARCH AND DEVELOPMENT (R & D) SUPER ALLOWANCE

Corporations will be allowed a research and development super allowance deduction from income based on research and development expenditures incurred in Ontario after April 20, 1988. The deduction will be from the portion of income allocated to Ontario. Eligible expenses are those which qualify as scientific research and experimental development under subsection 127(9) of the Income Tax Act (Canada) for purposes of the federal investment tax credit. Expenditures for buildings which are proposed to be excluded from eligible expenses under the Income Tax Act (Canada) are excluded in calculating the Ontario deduction.

The deduction will be calculated at the following rates:

On expenditures incurred in the current year not exceeding an amount equal to an expenditure base calculated with reference to a three-year moving average:

- 35 per cent for small businesses
- 25 per cent for other corporations

On that portion of current year expenditures in excess of the expenditure base:

- 52 1/2 per cent for small businesses
- 37 1/2 per cent for other corporations

For taxation years straddling April 20, 1988, the expenditure base will be reduced by the proportion that the number of days in the taxation year prior to April 21, 1988 is to the total number of days in the taxation year. All current year expenditures and the expenditure base must be reduced by any federal investment tax credit applicable.

A definition of "Small business" will be legislated. The qualification criteria are being determined, however it is known that only Canadian-controlled private corporations will be eligible.

## MINING CORPORATIONS — DEPLETION/RESOURCE ALLOWANCES

The automatic depletion allowance for mining companies based on resource profits will be phased out over five years. Commencing in 1989, the current automatic depletion allowance of 33 1/3 per cent will be reduced by 6 2/3 per cent each year to a NIL amount in 1993 and subsequent years.

Beginning in 1989 there will be a phasing-in of the resource allowance, similar to the allowance presently available to oil and gas corporations. The resource allowance will be phased in over five years, commencing with a 5 per cent rate in 1989 and increasing by 5 per cent each year to 25 per cent in 1993 and subsequent years.

The rate changes apply effective January 1st of each year. For taxation years which straddle January 1st, the automatic depletion and resource allowances will be prorated according to the number of days before and after that date.

## FABRICATION ET TRANSFORMATION : REDRESSEMENT DU COÛT DE REMPLACEMENT ACTUEL

Les corporations auront droit à une seule et unique déduction de l'impôt sur le revenu ontarien pour les acquisitions de matériel et d'outillage neufs achetés après 1988 et destinés à des activités de fabrication ou de transformation en Ontario. Cela signifie que les corporations pourront pleinement profiter de cette réduction dans les cas où la répartition est faite sur d'autres juridictions, car le redressement sera essentiellement appliqué à la réduction du revenu ontarien.

Le redressement est déductible au cours de la première année d'imposition pendant laquelle la déduction pour amortissement des acquisitions de matériel et d'outillage peut être demandée. Pour les acquisitions faites en 1989, le taux de déduction sera de 10 pour 100 du coût amortissable et, pour les acquisitions faites après 1989, cette déduction sera de 15 pour 100. Aux fins de déduction pour amortissement relativement à l'acquisition de matériel et d'outillage destinés à des activités de fabrication ou de transformation, l'Ontario adoptera les classements et les taux fédéraux.

## SUPER DÉDUCTION POUR LA RECHERCHE-DÉVELOPPEMENT (RD)

Les corporations pourront avoir droit à une super déduction pour la recherche-développement appliquée au revenu et calculée en fonction des dépenses engagées pour de la recherche-développement en Ontario après le 20 avril 1988. Le déduction proviendra de la portion du revenu répartie en Ontario. Les dépenses admises sont celles qui sont admissibles au titre de recherche scientifique et de développement expérimental conformément au paragraphe 127 (9) de la loi fédérale de l'impôt sur le revenu, aux fins du crédit d'impôt fédéral à l'investissement. Les dépenses pour les bâtiments, que l'on propose d'exclure des dépenses admissibles en vertu de la loi fédérale de l'impôt sur le revenu, sont exclues du calcul de la déduction ontarienne.

La déduction sera calculée selon les taux suivants :

Pour les dépenses engagées dans l'année en cours ne dépassant pas un montant égal à une base de dépenses calculée en fonction d'une moyenne mobile de trois ans :

- 35 pour 100 pour les petites entreprises
- 25 pour 100 pour les autres compagnies

Pour cette partie des dépenses de l'année en cours excédant la base des dépenses :

- 52 1/2 pour 100 les petites entreprises
- 37 1/2 pour 100 les autres compagnies

Pour les années d'imposition chevauchant le 20 avril 1988, la base des dépenses sera calculée proportionnellement au nombre de jours qui restent dans l'année après le 20 avril 1988. Toutes les dépenses de l'année en cours et la base des dépenses doivent être réduites de tout crédit applicable d'impôt fédéral à l'investissement.

Une définition de «petites entreprises» sera légiférée. Les critères d'admissibilité sont étudiés, mais on peut d'ores et déjà dire que seules les corporations privées dont le contrôle est canadien seront admissibles.

## SOCIÉTÉS MINIÈRES — DÉDUCTIONS RELATIVES AUX RESSOURCES ET À L'ÉPUISEMENT

La déduction automatique pour épuisement au titre des bénéfices miniers sera éliminée graduellement en cinq ans. À partir de 1989, l'actuelle déduction automatique de 33 1/3 pour 100 pour épuisement sera réduite de 6 2/3 pour 100 chaque année pour atteindre un montant NIL en 1993 et les années suivantes.

À compter de 1989, une déduction relative à des ressources sera graduellement introduite, et sera analogue à la déduction présentement offerte aux compagnies pétrolières. La déduction relative à des ressources sera introduite sur cinq ans et offrira initialement un taux de 5 pour 100 en 1989, puis augmentera de 5 pour 100 chaque année pour atteindre 25 pour 100 en 1993 et les années suivantes.

Les modifications de taux entrent en vigueur le 1<sup>er</sup> janvier de chaque année. Pour les années d'imposition chevauchant le 1<sup>er</sup> janvier, la déduction automatique pour épuisement et la déduction au titre de ressources seront calculées proportionnellement au nombre de jours précédant et suivant cette date.

## FEDERAL TAX REFORM

Ontario will parallel the federal tax reform proposals affecting corporations WITH THE EXCEPTION OF THE FOLLOWING.

- The proposed deduction allowed to a corporation in computing taxable income equal to 2 1/2 times the federal tax payable by it with respect to dividends on certain preferred shares.
- The proposed deduction in computing income of a life insurance corporation equal to the special tax payable on investment income.

Ontario will not adopt the federal incentives provided to certain financial institutions that establish International Banking Centres in certain parts of Canada.

### Filing and Payment Procedures

As a result of the delay in the enactment of the Federal Tax Reform measures, the following filing and payment procedures have been instituted with respect to the application of the proposed changes for Ontario purposes.

- Taxpayers are urged to file their tax returns (CT-23) and make the required payment of taxes as if the measures are law, taking into consideration the Ontario exceptions noted above.
- Where a corporation chooses to file in accordance with the existing legislation rather than the proposed measures, it should file with its tax return a copy of the reconciliation form filed with its federal tax return. This form should show the effect on its federal taxable income of the Tax Reform measures. If there are any further adjustments in arriving at Ontario taxable income they should be shown in a separate statement of adjustment.
- Interest charges on deficient installments or final payments and credit interest on overpayments will be calculated in the normal manner. There will be no concession to interest payable because of the delay in the enactment of the federal tax reform measures.

## OTHER ITEMS

### Farm Equipment Dealers Tax Reduction Program

- The Farm Equipment Dealers Temporary Capital Tax Reduction Program provides a temporary reduction of capital tax to qualifying corporations for the first two taxation years commencing after December 31, 1986 and before January 1, 1989.
- To qualify for the reduction a corporations' principal business throughout the taxation year may be any combination of the retail sale, leasing or servicing of farm equipment other than only the servicing of such equipment.
- Under the program, a farm equipment dealer's capital tax payable is determined as follows:
  - Where taxable capital is \$3,000,000 or less, the capital tax payable is the lesser of \$200 or the amount calculated in accordance with the otherwise applicable capital tax calculation.
  - Where taxable capital is over \$3,000,000, the capital tax payable is the lesser of:
    - a) the amount calculated in accordance with the otherwise applicable capital tax calculation, and
    - b) \$200 plus 0.3% on the amount of taxable capital exceeding \$3,000,000 multiplied by the Ontario Allocation factor where applicable.
- Farm equipment dealers that qualify for this program should use the Farm Equipment Dealers' Capital Tax Form for computing their capital tax payable. These forms may be obtained from the Corporations Tax Branch on request.
- For further information on capital tax otherwise payable as announced in the 1988 Budget, see table under Flat Rate Capital Tax.

## RÉFORME FISCALE FÉDÉRALE

L'Ontario adoptera des mesures analogues à celles de la réforme fiscale fédérale touchant les compagnies, À L'EXCEPTION DES CAS SUIVANTS :

- La déduction proposée, accordée à une corporation, dans le calcul du revenu imposable égal à deux fois et demie le paiement de la taxe fédérale par la corporation sur les dividendes de certaines actions privilégiées.
- La déduction proposée dans le calcul du revenu d'une corporation d'assurance-vie égal à une taxe spéciale exigible sur le revenu de placements.

L'Ontario n'adoptera pas les mesures d'incitation fiscale fédérales accordées à certaines institutions financières qui créent des centres bancaires internationaux dans certaines régions du Canada.

### Procédures de production et de paiement

En raison du retard occasionné dans l'adoption des mesures de réforme fiscale fédérale, les procédures suivantes de production et de paiement ont été instituées relativement à l'application des modifications proposées pour l'Ontario.

- Les contribuables doivent produire leur déclaration d'impôt (CT-23) et effectuer le paiement requis des impôts, tout comme si les mesures étaient légiférées, en tenant toutefois compte des exceptions ontariennes notées ci-dessus.
- Si une corporation choisit de produire une déclaration conforme à la loi en vigueur, au lieu de suivre les mesures proposées, elle doit accompagner sa déclaration d'impôt d'une copie du formulaire de rapprochement joint à sa déclaration d'impôt fédérale. Ce formulaire doit refléter l'effet des mesures de réforme fiscale sur le revenu imposable fédéral. Si d'autres ajustements expliquent le calcul du revenu ontarien imposable, ceux-ci peuvent être indiqués dans un état séparé de régularisation.
- Les intérêts débiteurs sur les acomptes provisionnels insuffisants ou les paiements pour solde, et les intérêts créditeurs sur les paiements en trop seront calculés de la manière habituelle. Aucune concession ne sera accordée relativement à l'intérêt exigible à cause du retard dans l'adoption des mesures de réforme fiscale fédérale.

## AUTRES ARTICLES

### Programme de réduction d'impôt au bénéfice des marchands d'équipement agricole

- Le programme de réduction temporaire de l'impôt sur le capital au bénéfice des marchands d'équipement agricole offre une réduction temporaire de l'impôt sur le capital aux corporations admissibles, pour les deux premières années d'imposition commençant après le 31 décembre 1986 et avant le 1<sup>er</sup> janvier 1989.
- Pour être admissible à cette réduction, l'activité commerciale principale d'une corporation doit, durant toute l'année d'imposition, se rapporter à la vente au détail, la location ou l'entretien d'équipement agricole, et non être essentiellement fondée sur l'entretien de tel équipement.
- En vertu du programme, on détermine comme suit le paiement de l'impôt sur le capital :
  - Si le capital imposable est de 3 millions de dollars ou moins, l'impôt exigible sur le capital est soit de 200 \$, soit d'un montant établi conformément au calcul normal de l'impôt sur le capital, selon le moindre de ces deux montants.
  - Si le capital imposable est supérieur à 3 millions de dollars, l'impôt exigible sur le capital est le moindre des deux montants suivants :
    - a) le montant établi conformément au calcul normal de l'impôt sur le capital, et
    - b) 200 \$ plus 0,3 pour 100 du montant du capital imposable excédant 3 millions de dollars, multiplié, le cas échéant, par le facteur de répartition en vigueur en Ontario.
- Les marchands d'équipement agricole admissibles à ce programme doivent utiliser le formulaire d'impôt sur le capital pour marchands d'équipement agricole dans leur calcul du paiement de l'impôt sur le capital. On peut se procurer lesdits formulaires auprès de la Direction de l'imposition des compagnies.



### Time Limit For Issuing Reassessments

It is proposed to reduce the time limit for raising a reassessment under ordinary circumstances to four years from the present six years. In cases where a reassessment results from a loss carry-back to a prior year, the time limit will be reduced to seven years from the current eight years.

This change will apply to assessments and reassessments of taxation years commencing after the day Bill 84 (presently before the Ontario Legislature) receives Royal Assent.

### Advance Corporations Tax Rulings

Requests for rulings received after March 31, 1988 are subject to an increased fee of \$65 (previously \$50) for each hour spent in preparing the ruling. The minimum charge of \$125, set out in Information Bulletin Number 2-77R, no longer applies. Also, no minimum deposit is required to accompany a request for ruling. Other requirements pertaining to ruling requests remain as described in the above Bulletin.

### Tax Sparing — International Tax Conventions

Generally, "taxes spared" are those withholding taxes otherwise payable to a foreign country and which have been reduced or exempted by that foreign jurisdiction in order to encourage investment of foreign capital.

Under certain international treaties, taxes spared are considered to have been paid for purposes of calculating foreign tax credits under the Income Tax Act (Canada).

A notional grossed-up withholding tax, without an obligation to remit the tax to the foreign jurisdiction, does not qualify as taxes spared.

In calculating the Ontario Foreign Tax Credit under Section 32 of the Corporations Tax Act, the Branch allows a foreign tax credit on foreign taxes spared by a foreign country in respect of a corporation's investment income earned in that jurisdiction, providing the following conditions are met:

1. The federal treaty between Canada and that foreign country provides a specific exemption or reduction of the foreign taxes otherwise payable.
2. Revenue Canada has allowed a federal foreign tax credit in respect of the taxes spared on the foreign investment income earned in that jurisdiction.
3. The treaty has been reviewed by this Branch and has been accepted for this purpose. Eligible treaties will be prescribed by the Corporations Tax Regulations.

To date, the treaties between Canada and the countries of Korea and Spain are eligible and will be prescribed by regulation. Other treaties will be reviewed and prescribed as considered necessary.

The credit will apply to taxes spared after the date that the provisions of the relevant treaty come into force.

### ENQUIRIES

For further information on matters contained in this Bulletin, contact the Corporations Tax Branch at:

P.O. Box 622  
33 King Street West  
Oshawa, Ontario  
L1H 8H6

Telephone: Metro Toronto (416) 965-8470  
Area Code 807 1-800-263-3792  
All Other Area Codes 1-800-263-3960

- Pour de plus amples renseignements sur l'impôt sur le capital normalement exigible, tel qu'annoncé dans le budget 1988, consulter le tableau se rapportant aux taux uniformes d'imposition du capital.

### Délai d'émission des nouvelles cotisations

On propose de réduire le délai de collecte d'une nouvelle cotisation dans les circonstances ordinaires, et de fixer ce délai à quatre ans au lieu de six ans comme c'est actuellement le cas. Lorsqu'une nouvelle cotisation découlera du report d'une perte sur une année antérieure, le délai sera réduit à sept ans au lieu de huit ans, comme c'est actuellement le cas.

Ce changement s'appliquera aux cotisations et nouvelles cotisations des années d'imposition commençant le jour suivant la sanction royale du projet de loi 84 (présentement devant l'assemblée législative de l'Ontario).

### Décisions anticipées en matière d'impôt sur le revenu des corporations

Les demandes de décision reçues après le 31 mars 1988 sont assujetties à des frais supplémentaires de 65 \$ (auparavant 50 \$) pour chaque heure passée à la préparation de la décision. Les frais minimum de 125 \$, annoncés dans le bulletin d'information Numéro 2-77R, ne sont plus applicables. Par ailleurs, aucun versement minimum ne doit obligatoirement accompagner la demande de décision. Les autres exigences afférentes aux demandes de décision demeurent telles que décrites dans le bulletin susmentionné.

### Réserve des impôts — Conventions fiscales internationales

En général, «les impôts réservés» sont ceux qui sont normalement versés à un pays étranger, mais qui ont été réduits ou exemptés par cette juridiction étrangère afin d'encourager l'investissement de capital étranger.

En vertu de certains traités internationaux, les impôts réservés sont considérés comme payés aux fins de calcul des crédits d'impôts étrangers, conformément à la loi fédérale de l'impôt sur le revenu.

Un impôt réservé, majoré et théorique, sans obligation de verser l'impôt à la juridiction étrangère n'est pas admissible au titre d'impôt réservé.

Dans le calcul du crédit pour impôt étranger, conformément à l'article 32 de la Loi sur l'imposition des personnes morales, la Direction ontarienne accorde un crédit sur les impôts étrangers réservés par un pays étranger relativement au revenu de placements étrangers d'une compagnie dans cette juridiction, si les conditions suivantes sont remplies :

1. Le traité fédéral entre le Canada et ce pays étranger prévoit une exemption ou une réduction spécifique des impôts étrangers normalement exigibles.
2. Revenu Canada a accordé un crédit pour impôt étranger, relativement aux impôts réservés sur le revenu de placements étrangers gagné dans cette juridiction.
3. Le traité a été examiné par la présente Direction et, à cette fin, a reçu son acceptation. Les traités admissibles seront visés par le Règlement de l'impôt sur le revenu des compagnies.

Jusqu'à ce jour, les traités entre le Canada et la Corée et l'Espagne sont admissibles et seront déterminés par règlement. Au besoin, d'autres traités feront l'objet d'un examen et seront visés par règlement.

Le crédit accordé s'appliquera aux impôts réservés suivant la date d'entrée en vigueur des clauses du traité pertinent.

### DEMANDES DE RENSEIGNEMENTS

Toutes les demandes de renseignements complémentaires sur des questions relatives à ce bulletin doivent être adressées à la :

Direction de l'imposition des compagnies  
Case postale 622  
33, rue King ouest  
Oshawa (Ontario)  
L1H 8H6

Par téléphone : (416) 965-8470 (Toronto)  
1-800-263-3792 (si l'indicatif régional est 807)  
1-800-263-3960 (partout ailleurs)



CADON  
RU70  
152



## **INFORMATION BULLETIN**

### **Corporations Tax Branch**

June 1995 [2749 rev.]

### **IMPORTANT**

#### **UPDATE TO INFORMATION BULLETIN 2749**

#### **EXTENSION OF DUE DATE FOR EFILE RETURNS**

Some accounting firms and corporations have experienced problems in meeting the EFILE requirements outlined in Information Bulletin 2749. Therefore the due date for electronically filed tax returns has been extended for corporations subject to the corporate minimum tax (CMT). Those returns due on June 30, 1995 will be given an extension to July 31, 1995, if the returns are filed according to the EFILE requirements. In these circumstances, no late-filing penalties will be charged, however interest will be charged for late payments in the normal manner.

If a company is not subject to CMT but wishes to EFILE voluntarily, no extension will be granted. In these cases, the EFILE return is still due on June 30, 1995.

A paper return that is due on June 30, 1995, which is filed on a pre-printed approved CT23 published by this Branch, must still be received by the Ministry on or before June 30, 1995. Late-filing penalties will apply to approved paper returns which are received after the due date.

For further EFILE information, please contact the Corporations Tax Branch at:

(905) 433-6539 or 433-6559 in Oshawa or,  
(416) 965-1160 ext. 6539 or 6559 in Toronto.



## **INFORMATION BULLETIN**

### **Corporations Tax Branch**

March 1995 [2749]

### **Requirements for Electronic Filing (EFILE) of Corporation Tax Returns (CT23)**

In the February 1994 Information Bulletin (2743-R1), it was announced that the Ministry of Finance would be introducing electronic filing for certain corporations. This bulletin outlines the requirements for corporations to file their Ontario Corporations Tax Return (CT23) electronically, as introduced in Bill 146.

#### **Legislation**

Legislation, introducing electronic filing requirements for certain corporations, was passed in Bill 146, which received Royal Assent on June 23, 1994. As a result:

1. Corporations subject to Corporate Minimum Tax, other than insurance companies which file a CT8, are required to EFILE their tax returns.
2. EFILE is required for the above returns filed on or after June 1, 1995.
3. Corporations, not subject to Corporate Minimum Tax, may EFILE voluntarily on or after June 1, 1995.

#### **Staged Implementation**

As a first stage, electronic filing will be a combination of a floppy disk and paper documents. In the future, the Ministry will move to full transmission over telephone lines. The Ministry is currently consulting with Revenue Canada and the province of Alberta to create a partnership for joint EFILE for CT23, T2 and AT-1, which would use complete electronic transmission.

#### **Approved Software**

1. Tax preparation software that provides an EFILE capability must be approved by the Ministry of Finance. To obtain Ministry approval, software must include the certification form and abide by the Ministry's EFILE EDI mapping standards.
2. Instructions on how to use the EFILE module in tax preparation software must be provided by the software vendor. The Ministry is unable to assist corporations in using the software.



## **Mailing Address for EFILE Packages**

All EFILE return packages must be mailed to:

Ministry of Finance, P.O. Box 642, Oshawa, Ontario, L1H 8T1.

## **EFILE Return Package**

The EFILE return package consists of two components, a floppy disk and paper documents. These must be sent together to the Ministry in the same package and contain the following information to be considered complete.

### **1. Floppy disk component must contain the following data:**

- ▶ the CT23
- ▶ the federal T2
- ▶ the following specified **Ontario schedules**, where applicable:
  - . T2S(6) Summary of Dispositions of Capital Property
  - . T2S(8) Summary of Ontario Capital Cost Allowance
  - . T2S(8A) Deduction in respect of Cumulative Eligible Capital
  - . T2S(13) Continuity of Reserves
  - . T2S(27) Calculation of Eligible Canadian Profits
  - . R&D Super Allowance Schedule
  - . Corporate Minimum Tax Schedules
- ▶ the following specified **federal schedules**, where applicable:
  - . T2S(1) Reconciliation of net income (loss) per financial statements with net income (loss) for income tax purposes
  - . T2S(3) Schedule of Dividends Received and Taxable Dividends Paid
  - . T2S(6) Summary of Disposition of Capital Property
  - . T2S(7) Income Analysis
  - . T2S(8) Federal Capital Cost Allowance
  - . T2S(8A) Deduction in Respect of Cumulative Eligible Capital
  - . T2S(9) Related Corporations
  - . T2S(13) Continuity of Reserves
  - . T2S(27) Computation of Canadian Manufacturing and Processing Profits
  - . T2S-TC Tax Calculation Supplementary - Corporations
  - . T2013 Agreement among Associated Corporations
  - . T661 Claim for Scientific Research and Experimental Development Expenditures
  - . T106 Corporate Information Return of Non-Arm's Length Transactions with Non-Resident Persons

## **2. Paper document component must contain the following data:**

- ▶ The Corporations Tax Branch account number should be recorded on each of the paper documents.
- ▶ Paper documents include:
  - An original EFILE certification form, included in EFILE software package, must be printed in letter quality, and signed by an authorized signing officer of the corporation. Photocopies or faxes of the certification form are not acceptable.
  - Financial statements.
  - Receipts for political donation(s), if applicable.
  - Any other required schedules not included on the floppy disk.

### **Labelling of Floppy Disks**

**When filed by the actual corporation, each disk should be labelled with the following information:**

- ▶ Disk reference number, when more than one disk is being submitted. Number each disk in sequence, indicating this number on the top right hand corner of the label. This number will be called the disk reference number. If any problems or questions arise, this number will be used to identify the disk. It would be worthwhile to record this number and the information contained on this disk for your own records should any enquiries be made.
- ▶ Corporation's name and Corporations Tax account number
- ▶ Corporation's telephone number and fax number

**When filed by someone other than the corporation, e.g. accounting firm (transmitter), each disk should be labelled with the following information:**

- ▶ Disk reference number, as above.
- ▶ Transmitter's name
- ▶ Transmitter's assigned number (Please contact the Ministry at the phone number below to obtain a transmitter number.)
- ▶ Transmitter's phone number and fax number

### **Floppy Disk Specifications**

- ▶ The Ministry will accept either 3.5 or 5.25 inch disks.
- ▶ The Ministry will accept low or high density DOS generated disks or high density Apple Macintosh generated disks.

### **Floppy Disk Problems**

1. If a disk is damaged or not readable, the Ministry will notify whoever filed the return, either the corporation or transmitter.
2. A corporation is allowed 10 working days, from the date of notice that there is a disk problem, to resubmit another disk without incurring a late filing penalty.



### **Ministry Storage of Return Information**

Once the information on the floppy disk is processed, the disk will be shredded to prevent unauthorized access to the data. The paper documents will be filed in the corporation's file as is the current practice.

### **Benefits of EFILE**

- ▶ Faster turnaround time to process returns
- ▶ Reduced paper burden on taxpayers
- ▶ Reduction in data entry costs for the Ministry
- ▶ Improved service for enquiries regarding tax return status and tax adjustments
- ▶ More data for conducting economic analysis

### **Contact Number**

For further EFILE information, please contact the Corporations Tax Branch at:

- ▶ (905) 433-6539 or 433-6559 in Oshawa or,
- ▶ (416) 965-1160 ext. 6539 or 6559 in Toronto.

Ce document est aussi disponible en français sous le nom <<Exigences relatives à la transmission électronique (EFILE) des déclarations d'impôts des corporations (CT23)>>. Veuillez appeler un des numéros de téléphone ci-dessus pour demander une copie de ce document, ou écrire à: ministère des Finances, C.P. 627, Oshawa, ON, L1H 8H5.







